ENERGY. SOLUTIONS.

SaskEnergy

VISION

We create superior value through innovative energy solutions.

MISSION

Our team of dedicated employees and business partners develops and delivers safe, reliable natural gas solutions that benefit our customers and Saskatchewan.

VALUES

Safety: We never compromise the safety of our employees and the public.

Community: We are leaders in developing a diverse workforce, supporting our communities and environmental stewardship.

Recognition: We take time to recognize the individual and team contributions of our employees.

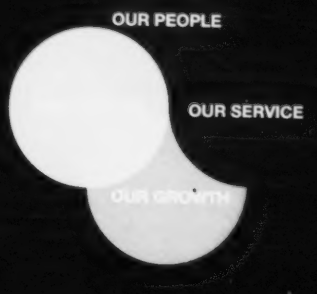
Accountability: We are accountable for our decisions, our actions and the results.

Spirit: We create a positive, welcoming and enjoyable work environment that supports employees in achieving their career goals and life balance.

Communication: We have open, honest and respectful communication that builds strong relationships.

Integrity: We are honest, respectful and apply high ethical standards.

SaskEnergy's strategic mandates, as illustrated below, are linked and together help achieve the vision and mission of the Corporation. These mandates also help employees connect their daily activities to the strategic plan and understand how their work impacts the Corporation's direction.



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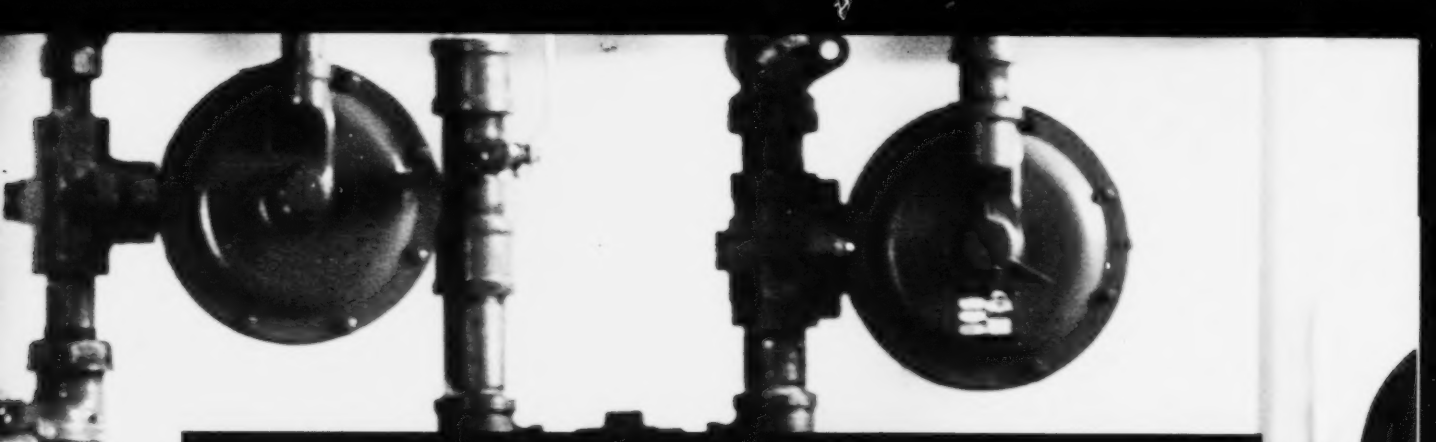
Karel Larson, SaskEnergy Technical Training Coordinator, Saskatoon and
Judy Nagus, Executive Director of the Mechanical Contractors Association of Saskatchewan, Saskatoon



At SaskEnergy, we believe that our success as a company is directly related to our ability to develop long-term, mutually beneficial relationships with our many partners.

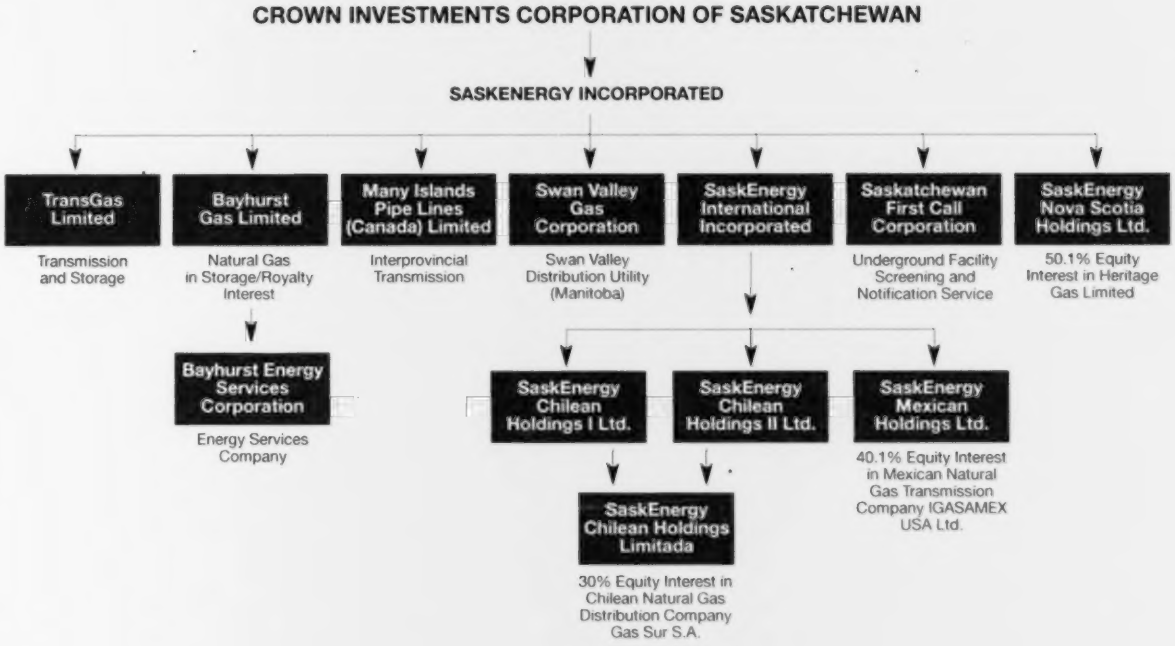
Our partnerships have evolved from a wide array of industry, private sector, non-profit and community organizations and can be recognized through large and small projects across the Province. This year, a new Provincial Technical Training Centre was developed in cooperation with the Mechanical Contractors Association of Saskatchewan (MCAS). Building on an agreement to share technical expertise, the facility provides a common training ground for maintaining the most current technical knowledge and skills. The training centre is home to state-of-the-art heating, ventilation and air conditioning equipment, which is used not only to heat and cool the building, but as hands-on training resources. This facility will be used by different heating contractors, including SaskEnergy Service Technicians, SaskEnergy Network Members and trades students throughout the Province on a regular basis.

Since 1998, the SaskEnergy Network, a highly valued partnership of 140 independent plumbing and heating contractors across the Province, has served as an opportunity to collaborate and deliver joint services with industry representatives. The SaskEnergy Network helps expand our service offering by creating a direct link to customers and businesses, providing them with access to natural gas products and services, financing options, energy efficiency programs and information.

Look towards southeast Saskatchewan and you will find another successful partnership between Bayhurst Energy Services Corporation, a subsidiary of SaskEnergy, and ATCO Midstream Ltd. Together, we are undertaking environmentally beneficial initiatives through the expansion of the Kisbey Natural Gas Processing Plant. In some areas of the Province, natural gas that is associated with oil production is normally flared into the atmosphere because it is located far from natural gas infrastructure. However, through this joint venture, the natural gas is captured, processed at the plant and turned into a viable energy source. The plant is currently expanding its pipeline gathering system by 100 kilometres (km), further reducing Greenhouse Gas (GHG) emissions by 250,000 tonnes a year.

In the near future, we also anticipate great value from our research partnership with the Petroleum Technology Research Centre to determine the viability of using deep saline aquifers for the long-term sequestration of carbon dioxide (CO_2). In addition, the use of Waste Heat Recovery technology at our compressor stations, in conjunction with Innovative Steam Technologies, will use the energy emitted from the exhaust stack of a compressor unit to produce electricity.

You don't have to look very far to see our many strategic partnerships. These partnerships, along with many others, create long-lasting relationships that provide the energy and tools we need today to ensure that our business becomes more effective and succeeds in the future.


CROWN INVESTMENTS CORPORATION OF SASKATCHEWAN
SASKENERGY INCORPORATED
TransGas Limited
Transmission and Storage
Bayhurst Gas Limited
Natural Gas in Storage/Royalty Interest
Many Islands Pipe Lines (Canada) Limited
Interprovincial Transmission
Swan Valley Gas Corporation
Swan Valley Distribution Utility (Manitoba)
SaskEnergy International Incorporated
Saskatchewan First Call Corporation
Underground Facility Screening and Notification Service
SaskEnergy Nova Scotia Holdings Ltd.
50.1% Equity Interest in Heritage Gas Limited
Bayhurst Energy Services Corporation
Energy Services Company
SaskEnergy Chilean Holdings I Ltd.
SaskEnergy Chilean Holdings II Ltd.
SaskEnergy Mexican Holdings Ltd.
40.1% Equity Interest in Mexican Natural Gas Transmission Company IGASAMEX USA Ltd.
SaskEnergy Chilean Holdings Limitada
30% Equity Interest in Chilean Natural Gas Distribution Company Gas Sur S.A.

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower, SaskTel and SGI) and various commercial investments.

SaskEnergy's main business is the natural gas distribution utility. SaskEnergy owns and operates the distribution utility, which has the exclusive legislated franchise to distribute natural gas within the Province of Saskatchewan. The Provincial Cabinet regulates SaskEnergy's delivery and commodity rates. All rate changes are subject to review by the Saskatchewan Rate Review Panel, an independent body, prior to receiving Provincial Cabinet approval.

SaskEnergy's corporate structure consists of SaskEnergy (the Crown corporation) plus seven wholly owned subsidiaries as follows:

TransGas Limited (TransGas) owns and operates the transmission utility and has the exclusive legislated franchise to transport natural gas within the Province of Saskatchewan. It also owns and operates a non-regulated natural gas storage business as well as gathering and processing facilities, which are integrated with the transmission pipeline system. TransGas' transmission rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed with a representative group of customers.

Bayhurst Gas Limited (Bayhurst) owns, produces and sells natural gas from its storage facility in the west-central area of Saskatchewan. Bayhurst also owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta.

Bayhurst Energy Services Corporation (BESCO), a wholly owned subsidiary of Bayhurst Gas Limited, is an energy services company. BESCO owns a 50 per cent interest in a natural gas processing plant in southeast Saskatchewan, which is operated through an unincorporated joint venture with ATCO Midstream Limited (ATCO).

Many Islands Pipe Lines (Canada) Limited (MIPL) is a transmission company that owns 11 transmission pipeline interconnections in Alberta, two in the United States, and one in Manitoba, all of which connect to the TransGas system. MIPL is regulated by the National Energy Board.

Swan Valley Gas Corporation (SVGC) owns a natural gas distribution utility in the Swan Valley area of western Manitoba. SVGC serves customers in the towns of Swan River, Benito and Minitonas as well as a major industrial customer in Minitonas. SVGC is regulated by the Manitoba Public Utilities Board.

SaskEnergy International Incorporated (SEII) holds SaskEnergy's investments outside of Canada. SEII's primary focus is Chile and Mexico. SEII holds a 30 per cent equity interest in Gas Sur, S.A. (Gas Sur), a natural gas distribution company in Chile, as well as a 40.1 per cent equity interest in IGASAMEX USA Ltd. (Igasamex), which owns a natural gas transmission service company in Mexico.

Saskatchewan First Call Corporation *(Sask 1st Call)* provides a centralized "Call Before You Dig" underground facility screening and notification service. *Sask 1st Call* was established primarily for safety reasons to maintain a database of oil, natural gas and other underground infrastructures. *Sask 1st Call* provides a service whereby landowners and other stakeholders can contact *Sask 1st Call* to request the location of pipeline and non-pipeline related facilities of its subscribers. *Sask 1st Call*'s rate structure is intended to recover all operational costs and operate on a break-even basis.

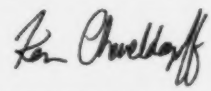
SaskEnergy Nova Scotia Holdings Ltd. (SNSHL) held SaskEnergy's 50.1 per cent equity interest in Heritage Gas Limited (Heritage Gas), a Nova Scotia natural gas distribution company. Heritage Gas is regulated by the Nova Scotia Utility and Review Board. This equity interest in Heritage Gas was sold effective October 1, 2009.

March 31, 2010

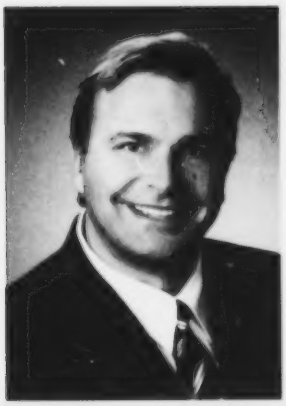
The Honourable Dr. Gordon Barnhart
Lieutenant Governor
Province of Saskatchewan

May it please Your Honour:

I respectfully submit the annual report of SaskEnergy Incorporated for the year ended December 31, 2009, in accordance with *The SaskEnergy Act*. The Financial Statements are in the form approved by the Treasury Board and have been reported on by the Corporation's auditors.



Honourable Ken Cheveldayoff
Minister Responsible for SaskEnergy



On behalf of Premier Brad Wall and the Government of Saskatchewan, it is my pleasure to present to you the 2009 SaskEnergy Annual Report.

Since assuming Ministerial responsibility for SaskEnergy in 2007, I have been impressed by SaskEnergy's ongoing commitment to meet a simply stated but challenging objective that I have outlined: to deliver the best possible service at the lowest possible price. In 2009, SaskEnergy delivered, once again, by providing competitive transmission rates and the lowest residential natural gas distribution rates of any company in Canada, while maintaining high levels of customer service, as confirmed by independent customer research.

SaskEnergy's efforts have complemented the ongoing economic growth in our Province. While it's great to hear of new commercial and residential customers in our urban areas, I get satisfaction from knowing that among the 4,700 distribution customers connected in 2009 were residents in some communities where the last new service was installed two decades ago. This fact illustrates the important role our Crown corporations play in supporting economic development and revitalizing our Province, including rural Saskatchewan.

SaskEnergy has been able to play this role because its culture has long been open to partnerships, whether it be working with mechanical contractors to launch an innovative Provincial Technical Training Centre or working with ATCO and producers in the southeast part of Saskatchewan to capture and move previously flared natural gas to market. We see this corporate culture internally as well, as SaskEnergy leads many Saskatchewan companies in its efforts to integrate First Nations and Métis people into its workforce and supplier chain, something that will be critical for other companies to emulate if our Province is to enjoy long-term prosperity.

I thank the people of SaskEnergy and welcome you, the customers and stakeholders, to learn more about its operations in this Annual Report. I am confident that you will find it to be a very encouraging story.

Sincerely,

Ken Cheveldayoff

Honourable Ken Cheveldayoff
Minister Responsible for SaskEnergy

Ken Taylor, SaskEnergy Service Technician I, Saskatoon and
[illegible]ser, SaskEnergy Customer Service Representative I, Saskatoon

Our company is committed to developing new practices and identifying solutions that improve the overall efficiency of our business and help manage cost pressures. We do this while keeping our core focus in clear view – delivering safe, reliable and cost-effective natural gas service to our customers.

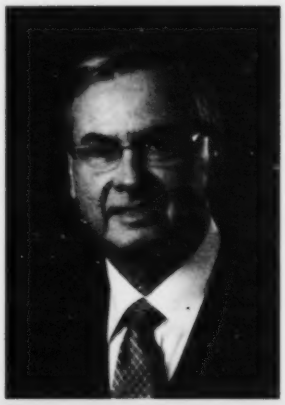
There is no singular technological change or process improvement that defines our efficiency efforts. In fact, almost 40 separate efficiency initiatives were undertaken in 2009. Take the Mobile Work Management System, for example. By using an in-vehicle computer system to dispatch the nearest qualified technician to a job, we've increased productivity by reducing the number of kilometres driven, boosting the number of jobs assigned and completed per day and providing the capability to enter field data in a timely fashion by completing work orders while accessing the most current on-line mapping.

When your core business involves serving an area of over 380,000 square kilometres, one can imagine that operating properly sized and outfitted vehicles plays an important role in efficiency. This past year, we downsized a portion of our vehicle fleet from 3/4 ton trucks to 1/2 ton trucks. To accommodate this reduction in payload capacity, a vehicle inventory process was also developed to ensure the proper allocation of tools, equipment and parts for each truck. The reformation of our vehicle fleet resulted in reduced capital costs, improved fuel economy and lower maintenance costs. We've also introduced video conferencing at select locations to help reduce employee kilometres driven and overnight accommodations. All of these measures will have positive productivity and efficiency impacts for years to come.

This year, we are also creating innovative efficiencies through the introduction of Automated Meter Reading (AMR) trials. This new tool allows for an accurate and dependable reading of meters without having to physically enter our customers' premises. The AMR technology is being tested through a joint project with the city of Swift Current with hopes of rolling out the technology to all customers in the future. We will realize many benefits through this project, including reduced costs, improved accuracy of meter reads, access to premises, enhanced employee safety and improved billing of customer accounts. We are confident that these learnings, combined with our ongoing collaboration with SaskPower on meter reading activities, will produce strong results in the future.

Other efficiency efforts currently underway include the use of on-line training tools to mitigate some of the costs associated with training requirements and the re-organization of our Customer Service Representatives (CSR). This re-organization provides an opportunity to gain efficiencies through workload distribution across the Province and leverages resource availability in smaller area offices. We have also restructured the way in which we dispatch our construction crews. This restructuring has demonstrated positive change, such as the completion of 84 jobs by two-person construction crews that would have otherwise been completed by full construction crew complements.

Overall, our efficiency efforts resulted in savings of $5 million in 2009. These efforts range from simple process changes to the deployment of new technologies that use the strength and experience of others to deliver results to our customers. Whatever they may be, we are committed to finding the right energy solutions.



On behalf of the SaskEnergy Board of Directors, it is my pleasure to join the Minister Responsible for SaskEnergy, Honourable Ken Cheveldayoff, in presenting the 2009 SaskEnergy Annual Report.

We are pleased to acknowledge considerable progress made by SaskEnergy in achieving the goals outlined in its Strategic Plan, as well as in meeting the Crown Sector priorities of the Government of Saskatchewan. The successful focus of SaskEnergy/TransGas in bringing to fruition strong Saskatchewan-based growth, through both extension of its infrastructure and new business partnerships, deserves special recognition. In 2009, management was also able to bring about a successful and profitable divestiture of its holdings in Heritage Gas, allowing increased focus on growth within Saskatchewan.

We believe that the company's work to expand its gas marketing efforts, as well as its storage capacity, will continue to provide significant consolidated financial support to both the SaskEnergy and TransGas core activities. The Board of Directors was pleased to support management's focus on productivity and efficiency gains, including the identification of almost 40 initiatives that made it possible for SaskEnergy to realize $5 million in operational savings this year. Overall, the organization is well positioned to continue delivering long-term competitive rates to its customers and strong financial returns to the Owner over the next five years.

I would like to recognize the service of Daryl Labach and Brad Nelson, who left the Board of Directors in 2009, and recognize the contributions of Neal Krawchuk and Mitch McLeod, who joined as new members. I also want to thank President Doug Kelln, the executive and management team, and all employees of SaskEnergy for their efforts in leading the company this past year. The Board team is committed to the ongoing effective stewardship of SaskEnergy and we look forward to another successful year in 2010.

Sincerely,

Robert Pletch
Chair, SaskEnergy Board of Directors

As we move into a new decade, a focus on "partners, efficiencies and customers", supported by our employee expertise, aligns well with the Strategic Plan and vision we adopted in 2006 and the Crown Sector priorities the Government of Saskatchewan has established.

Overall, 2009 was a solid operational and financial year for SaskEnergy, in a time when the oil and gas industry continued to experience significant change. The impact of shale gas on North American supply/demand dynamics and the ongoing plans for meeting GHG reduction targets are just two salient examples. Change needs to be effectively managed without compromising our longstanding core priorities of providing safe and reliable service and maintaining the integrity of our extensive pipeline infrastructure. To help us get the job done, we're fortunate to employ some of the most highly competent and dedicated natural gas professionals in North America. We have also built a corporate culture strong enough to realize that we work better together, with business partners, customers and the community. It's not just a platitude at SaskEnergy; it is how we approach our work.

Consider the focus reflected in our Strategic Plan to grow within our Province. Continued strong provincial growth will see us plan to connect another 4,000 distribution customers in 2010, while we plan for a multi-year project to increase our overall storage capacity by 15 per cent to approximately 50 Petajoules (PJ). This includes a long-term plan for our first-ever joint venture storage development with a private sector partner. All along our project chain, we look for opportunities where we can engage other businesses and communities to realize success. In fact, over the next five years, a projected $52 million of our $140 million in business development capital is expected to be provided by external partners as we investigate opportunities in CO_2 pipelining and storage, a potential straddle plant opportunity and an additional greenfield flare gas opportunity.

On the downstream end of our business, we were proud to launch the Provincial Technical Training Centre with the Mechanical Contractors Association of Saskatchewan, a leading example of this type of training partnership between a utility and plumbing and heating industry anywhere in Canada. For our customers, another Canadian first is the nation-leading participation levels we have achieved in encouraging energy efficiency and conservation in Saskatchewan. SaskEnergy values this energy efficiency leadership role and appreciates the part we play in administering federal and provincial "Go Green" programs.

Within our vision "to create superior value through innovative energy solutions" remains an understanding of the need for continuous improvement in the effectiveness of our service delivery. We attack challenges, like safely managing one of the longest distribution networks in Canada, while delivering the lowest distribution rates in the country to our customers, with a constant effort to improve productivity and business processes. This past year saw the first full-year implementation of our mobile truck office project, replacing paper-based dispatching. Initiatives such as this one are meaningful ways of managing the one million customer contacts we experience

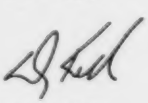
each year without compromising service. Corporately, we identified almost 40 individual productivity initiatives that translated into over $5 million of operating efficiencies in 2009.

Collectively, our business model and practices have allowed us to deliver consistent financial returns through varying economic conditions. We have two core utilities (SaskEnergy distribution and TransGas transmission) delivering competitive rates and industry-standard rates of return. We also have a growing and thriving business in gas marketing where we are increasingly leveraging our expertise and infrastructure to produce economic value. This work, as reflected in our Strategic Plan, is focused in Saskatchewan. Our 2009 consolidated net income also reflects the divestiture of our controlling interest in Heritage Gas Limited in Nova Scotia, realizing a net gain of over $8 million with total proceeds of $73.3 million for SaskEnergy's portion of the Nova Scotia investment.

We see a continued bright and profitable future for our organization, with stable core businesses and growing diversified operations in our Province. We will continue to deliver competitive rates and high levels of service to our customers. And we will continue to effectively renew our workforce, which is becoming increasingly representative and diversified – 16 per cent of our employees are under 30 years of age and almost 14 per cent are from First Nations and Métis backgrounds. These are statistics that helped contribute to SaskEnergy's recognition as a Top 100 employer in Canada. The stations and offices of the more than 50 communities in which we operate are filled with the experience of those who have given their entire careers to SaskEnergy and the energy and enthusiasm of the next generation of Saskatchewan's leaders.

I want to thank our employees, our customers and our partners, without whom SaskEnergy's achievements would not be possible. I continue to be humbled by the great privilege of being the President of an organization that not only provides a vital service to the people of Saskatchewan, but that is genuinely connected to the communities of our Province. I and all of our 1,100 employees look forward to serving you in 2010 and beyond.

Sincerely,



Doug Kelln
President and Chief Executive Officer, SaskEnergy

CONSOLIDATED FINANCIAL INFORMATION*	2009	2008	2007	2006	2005
($ millions)					
Commodity sales	451	432	400	389	376
Gas marketing sales	446	576	485	594	644
Delivery revenue	184	175	167	153	156
Transportation and storage revenue	80	77	82	86	86
Other	49	46	37	32	37
Total revenue	1,210	1,306	1,171	1,254	1,299
Commodity cost of gas sold	418	470	373	395	365
Gas marketing cost of gas sold	417	539	450	558	599
Operating expenses	282	267	260	248	258
Total expenses	1,117	1,276	1,083	1,201	1,222
Net income**	93	30	88	53	77
Dividend	51	43	53	35	29
Total assets	1,572	1,561	1,411	1,327	1,371
Property, plant and equipment – net	1,004	945	978	955	947
Capital expenditures	130	114	100	71	59
OPERATING STATISTICS					
Distribution volumes *(petajoules)*					
Residential/Farm	37	36	33	32	34
Commercial	31	30	29	27	28
Industrial	62	72	70	66	66
TOTAL	130	138	132	125	128
Transmission volumes *(petajoules)*					
Domestic	205	216	208	204	201
Export	62	81	121	155	162
TOTAL	267	297	329	359	363
Number of customers					
Distribution	347,327	342,606	336,512	332,148	329,240
Transmission	132	129	129	124	121

*** Certain of the prior year amounts have been reclassified to conform to the current year's presentation.**
**** Includes fair value adjustments since 2007. 2009 operational net income before fair value adjustments was $64 million. This compares with 2008 operational net income of $55 million. Dividends are based on operational net income.**

Five-Year **Operating** Summary – **Distribution**

	2009	2008	2007	2006	2005
Sales in million cubic metres*	3,415	3,675	3,498	3,339	3,411
Residential annual average usage *(cubic metres)*	3,130	3,088	3,025	2,873	3,060
Degree days**	6,227	5,990	5,700	5,345	5,577
PIPELINE					
(kilometres)					
Distribution Utility					
SaskEnergy Incorporated	67,046	66,709	66,340	66,043	65,872
Swan Valley Gas Corporation	120	120	120	120	120
TOTAL	67,166	66,829	66,460	66,163	65,992

*** Retail, industrial and natural gas marketing.**

**** A unit measuring the extent to which the temperature falls below 18° Celsius. (In a normal year, the degree days are 5,554.)**

	2009	2008	2007	2006	2005
Peak day natural gas flows *(petajoules)*	1.19	1.50	1.49	1.53	1.38
Date of peak day flow	Mar. 11	Jan. 28	Feb. 14	Feb. 16	Jan. 15
Storage cavern sites	8	8	8	8	8
Storage caverns	26	26	26	25	24
Storage field sites*	3	3	3	3	3
Producing field sites*	1	1	1	1	1
PIPELINE					
(kilometres)					
TransGas Limited					
Transmission	13,803	13,592	13,573	13,528	13,482
Gathering	199	199	197	197	188
Many Islands Pipe Lines (Canada) Limited	435	435	435	435	435
Bayhurst Gas Limited	113	113	113	92	92
TOTAL	14,550	14,339	14,318	14,252	14,197
COMPRESSOR STATIONS					
TransGas Limited	22	22	22	22	23
Bayhurst Gas Limited	3	4	4	3	3
TOTAL	25	26	26	25	26
COMPRESSION HORSEPOWER					
TransGas Limited	81,100	82,200	82,200	82,200	88,325
Bayhurst Gas Limited	6,300	6,835	6,835	6,300	6,300
TOTAL	87,400	89,035	89,035	88,500	94,625

*** Includes Bayhurst Gas Limited.**

John Tsang, SaskEnergy Customer and EnerGuide for Houses Participant, Regina and Celine and Dave Novak, Owners of Amerispec Inspection Services, Regina

At SaskEnergy, we anticipate the needs of our customers and work hard to deliver results. We make every effort to ensure that natural gas service is affordable, reliable and accessible in Saskatchewan. These efforts are demonstrated through our delivery and commodity rates.

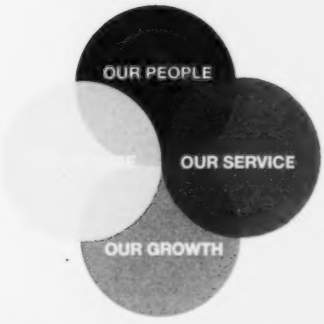
In fact, residential customers are paying the lowest delivery rates in the country and the lowest commodity rates in the Province in the last eight years. Whether our customers require financing for a new high efficiency furnace or assistance with energy efficiency upgrades, we are focused on providing our customers with energy solutions that meet their needs.

We recognize the role we play in environmental sustainability and are working to reduce the impact of our daily operations on the environment. By advising our customers on how to use energy responsibly, we help them save energy and money, thus creating customer satisfaction and long-term loyalty. We are able to do this through initiatives such as the Saskatchewan EnerGuide for Houses Program, which is designed to assist homeowners with the capital costs of making energy efficiency improvements to their homes. And the program has been highly successful. With a participation rate of over 11 per cent, Saskatchewan has the highest rate of uptake in Canada. As a result of the program, Saskatchewan's provincial GHG emissions have been reduced by more than 52,000 tonnes per year, which is the equivalent of taking almost 10,000 cars off the road. In order to deliver this major initiative, we work closely with key partners: Natural Resources Canada, Sun Ridge Group, Amerispec and Energy Wise Solutions. Collectively, we offer a program that builds on synergies and strong partnerships to leverage the funding needed to provide cost-effective energy solutions to our customers.

Many companies speak of providing exceptional customer service. At SaskEnergy and TransGas, we act on it. For instance, to accommodate the growing needs of one of our major customers, SaskPower, we constructed new high pressure transmission pipelines and delivery facilities to permit the expansion of their electrical generation through natural gas-fired turbines. SaskPower requires that these turbines be capable of meeting the needs of their customers during peak load times. These projects demonstrate other ways in which we accommodate the changing needs of our customers in a timely fashion. In 2009, we also added over 4,700 new customers in 344 communities.

No matter the size of customer, our efforts have a real impact. For the second consecutive year, we finished 2nd out of 10 companies included in the largest independent survey of customer satisfaction of power and natural gas utilities in Canada. We are proud of and humbled by the ongoing support of our customers.

From one corner of the Province to the other, we help our customers realize the benefits of natural gas, save energy and money, and support the environment. On the whole, we remain steadfast in our commitment to creating value and delivering safe, reliable service for our customers, today and into the future.



OUR FUTURE

Hydrogen Fuel Demonstration Project

Finding ways to reduce GHG emissions and our impact on the environment are important components of SaskEnergy's commitment to environmental sustainability. For nearly 20 years, SaskEnergy and the Saskatchewan Research Council (SRC) have worked with alternative fuel vehicles to create sustainable vehicles for the environment. These efforts are highlighted by the 166 SaskEnergy service vehicles that utilize compressed natural gas for fuel. This year, SaskEnergy and SRC studied the benefits of the world's first duel-fuel hydrogen/gasoline powered vehicles. These vehicles produce 50 per cent less GHG emissions than standard gasoline powered vehicles and produce water-vapour exhaust when operating on hydrogen. This two-year pilot project is intended to set the framework for commercial introduction of this technology.

Melville Compressor Station Dehydrator Remediation Project

SaskEnergy and TransGas employees completed an important environmental project at the Melville Compressor Station this year. TransGas replaced the dehydrator, a device used to strip natural gas of moisture and contaminants. To ensure adherence to environmental standards, TransGas employees worked within strict environmental protocols when removing old equipment, solid wastes and building structures. This project also provided an opportunity to collaborate with SaskEnergy's young employee network, Generation Energy (Gen-E), on a wetland creation project. Volunteers from the company planted nearly 2,000 plant species in the wetland area. The work completed at the site will have a valuable ecological impact for years to come.

Natural Gas Marketing

SaskEnergy's Gas Marketing business is helping to secure the financial future of the Corporation. SaskEnergy's province-wide network of transmission and storage facilities, combined with the Corporation's industry expertise in gas marketing, have been effectively utilized to deliver customer rate benefits and contribute $28.9 million in net income in 2009. That is roughly equivalent to the financial performance of SaskEnergy's distribution and transmission utilities. Through the use of buy/sell transactions, which allow the Corporation to use off-peak storage capacity to capture margins between the current and future price of natural gas, as well as the supply of natural gas to larger end-use customers through contracted sales, SaskEnergy continues to make maximum use of its infrastructure for the benefit of Saskatchewan people, both as shareholders and customers.

OUR GROWTH

Waste Heat Recovery

In 2009, SaskEnergy set its sights on a very ambitious environmental goal: to be net zero for electricity consumption by 2020 through energy conservation and the capture of Waste Heat Recovery (WHR). To help achieve this goal, TransGas is working with private sector partners on WHR technology. This innovative technology uses the energy emitted from the exhaust stack of a compressor unit to produce electricity. Two projects are currently underway at the Rosetown and Coleville compressor stations, and preliminary plans to implement the WHR technology at 12 additional compressor station locations are in progress. These efforts are being conducted in collaboration with SaskPower. With 14 potential projects in operation, TransGas could have the capacity to exceed power needs for all SaskEnergy and TransGas facilities.

Natural Gas Flows to La Ronge

SaskEnergy, TransGas and the Anglin Lake – La Ronge Natural Gas Committee celebrated the completion of the final phase of bringing natural gas service to Highway #2 northern communities. The last 147 km of four-inch transmission pipeline extending from Montreal Lake to La Ronge were placed into service in September 2009. This second phase of the project included two years of challenging construction work that required special care and attention to environmentally sensitive areas. Residential and business customers located in these northern communities, including the Lac La Ronge Indian Band, are now able to access the many benefits of natural gas: Northern businesses and residential customers began converting their appliances and activating their natural gas service over the fall period of 2009. Over the next number of years, a total of 800 customers are expected to enjoy the benefits of natural gas in this region of the Province.

A Fresh, New Look

SaskEnergy After nearly 15 years, SaskEnergy implemented a new corporate identity in 2009. The ultimate goal of this rebranding process was to find a visual identity that would connect with customers and strengthen SaskEnergy's reputation and visibility in Saskatchewan. SaskEnergy's new visual identity expresses the warmth and friendliness of the company along with its commitment to environmental stewardship for current and future operations. Over the next few years, you will increasingly see SaskEnergy's new look on marketing and communication materials, vehicles and buildings across the Province as it is cost-effectively rolled out.

OUR SERVICE

Innovative Call Center Technology

In 2009, SaskEnergy implemented a new call center technology called the Hosted Contact Centre (HCC). This new technology provides increased functionality for users, enhanced call recording capabilities and significant coaching and quality service applications. The HCC helps SaskEnergy provide improved customer service and offers the flexibility to adapt to the changing and increasing needs of its customers. This technology establishes a foundation for the future as the system provides streamlined processes for managing customer service operations.

Meeting High Customer Demand

At SaskEnergy, customer satisfaction is paramount. In 2009, the Corporation saw a steady increase in the number of new service requests, therefore putting increased demand on the distribution system. With 4,700 new customer connections this year, SaskEnergy is proud to provide top quality service. Whether it was on the phone, on-line or in person, this year alone SaskEnergy was in contact with its customers on approximately one million occasions. With such a large number of customer interactions, the Corporation is proud to achieve very positive results from its provincial market research survey. In the 2009, 88 per cent of respondents indicated that SaskEnergy provided above average customer service.

TransGas Energy to Store 2

The significant "Energy to Store" storage development project, which expanded TransGas' storage capacity by 25 per cent to approximately 41,000,000 GJ, neared completion in 2009. This project will be capable of storing an estimated $200 million of natural gas based on a $5.00 per GJ market price. The Corporation initiated a second phase of the project, which could bring to market an additional 15 per cent of new storage availability. Storage is evolving to be a strategic service in all cycles of the natural gas market for our customers, while being both a critical financial component and operational tool for our company. In 2009, an overall project scope was developed for the next phase of expansion. In 2010, operational developments will confirm the scope of expansion at existing storage facilities.

OUR PEOPLE

Engaged and Productive Workforce

For the second consecutive year, SaskEnergy was named by *Maclean's* magazine as one of Canada's Top 100 Employers. SaskEnergy is credited with creating a strong corporate culture that attracts and retains employees over the long term. The Corporation is committed to ensuring a positive and challenging career experience through learning and development initiatives for all employees across the Province.

Fostering a Safe Environment

At SaskEnergy, safety is more than a priority; it is a condition of employment. Since 2005, SaskEnergy and TransGas have participated in the industry-based Enform Safety Audit, which reviews SaskEnergy's employee safety program. Over the past four years, SaskEnergy has seen a steady improvement in its results, leading up to the Corporation's best result yet, a score of 95 per cent in 2009. The Corporation's efforts in hazard and risk identification helped achieve such a high rating in the survey. Each year, employees are encouraged to submit potential hazards through an on-line reporting system. This system is a way to communicate potential hazards or safety concerns to all employees throughout the Province and is a positive step towards achieving a safe work environment. The practice of hazard identification extends beyond the workplace and can positively affect employees in all aspects of their lives.

Representative Workforce

SaskEnergy and TransGas recognize that competitiveness and success in the industry rely heavily on the ability to employ a representative workforce. When an organization achieves this diversity, it also fosters a culture of perspective, ideas, creativity and a stronger, more cohesive company. SaskEnergy/TransGas is committed to achieving a workforce that reflects the provincial population, including First Nations and Métis people, persons with disabilities, visible minority members and women, at all levels of the Corporation. In 2009, the Corporation's diversity hires totaled approximately 30 per cent, which assisted in realizing a First Nations and Métis ancestry representation in the company of almost 14 per cent.

INTRODUCTION

The Management's Discussion and Analysis (MD&A) highlights the primary factors that affected the operations and financial results of SaskEnergy and its wholly owned subsidiaries for the year ended December 31, 2009. Using financial and operating results as its basis, the MD&A describes the Corporation's past performance and future prospects. This style of reporting enables readers to view SaskEnergy from the perspective of management.

This MD&A, together with the Corporation's 2009 audited consolidated financial statements and related notes, form the basis for financial reporting. It contains an in-depth discussion about SaskEnergy's consolidated financial results as well as its liquidity and capital resources. It also includes a brief discussion on the current business environment and how it affected the Corporation's financial results.

The following discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks. Risks are outlined in the Risk Management section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated by or implied by such statements.

BUSINESS ENVIRONMENT

Impacts of the Global Economy

Compared to the robust growth experienced in 2008, economists anticipated significant downward pressure in 2009 in the wake of the credit crisis. They predicted weak employment levels together with low housing, retail and consumer demand in general. A combination of declining energy and other commodity prices, a strengthening Canadian dollar and the struggling economy in the United States affected Saskatchewan's position in 2009. Despite the impacts of this uncertain and volatile global economy, the Saskatchewan economy fared better than most Canadian jurisdictions in 2009 and is poised to lead the nation in economic growth in 2010.

The North American energy sector was affected by the global pressures and uncertainties that characterized the last 18 months. In particular, crude oil and natural gas prices moved from record highs in 2008 to ten-year lows in 2009. Such volatility in prices created both significant challenges and opportunities for the Corporation. The challenge manifested itself in balancing the goal of providing stable yet competitive rates to our customers. Accordingly, the Corporation was able to reduce natural gas commodity rates twice in 2009 to the lowest rates since 2001. The Corporation leveraged the opportunity of the low natural gas price environment to secure and store natural gas inventories that will provide stability for commodity rates and future earnings from gas marketing activities.

Along with the improved business environment in the fourth quarter of 2009, the Corporation concluded a transaction selling its 50.1 per cent interest in Heritage Gas Limited, which has operated in Nova Scotia since 2003. Cash proceeds were applied to reduce debt and further strengthen the Corporation's financial position going forward. The

$8 million gain resulting from the sale of the investment supplemented the Corporation's earnings in 2009 and its ability to return dividends to the shareholder. The Corporation continues to have a debt to equity ratio that positions it well to mitigate borrowing requirements in the future and to ensure sufficient access to credit in order to fund working capital for operations, system maintenance and expansion, as well as business development activities within the Province. The Corporation anticipates continued access to adequate credit throughout 2010 via the Province of Saskatchewan and external credit facilities.

Economic instability did have some impact on the ability of SaskEnergy's customers to pay their energy bills in 2009, as bad debts increased over 2008. However, the vast majority of the Corporation's over 347,000 customers continued to pay their bills on time; over 95 per cent of the Corporation's receivables remained current or outstanding for fewer than 30 days.

In terms of its natural gas price management programs, SaskEnergy conducted business with counterparties in accordance with established risk management policies. These risk management policies include procedures that require ongoing monitoring of the creditworthiness of customers and counterparties and limitations on the amount of credit that can be extended. In the upcoming year, the Corporation will continue to comply with these policies and monitor closely the credit situation of customers and counterparties in order to mitigate the risk of financial losses.

Overall, in 2009, SaskEnergy experienced limited impact from the global economic situation. It retained access to adequate levels of credit and was able to fulfill borrowing requirements at low interest rates. Similarly, customers and counterparties were able to fulfill their obligations to SaskEnergy. As the Saskatchewan economy is linked to the global economy, primarily through the export of goods and services, the expectation is that the Province will benefit from any rebound of commodity prices and the United States' economy. From a financial and operational perspective, SaskEnergy is well positioned to contribute to the economy and provide ongoing safe and reliable service to its customers throughout the Province.

Natural Gas Industry

Natural gas prices in Saskatchewan are set in an open market and are influenced by North American supply, demand and economic conditions. After the global recession in late 2008, a slow economic recovery in 2009 resulted in natural gas prices in Western Canada persisting in a downward trend from approximately $6.50 per GJ at the beginning of the year to below $3.00 per GJ in late summer. This was followed by a winter price response of $5.45 per GJ by year end. The effects of the slow economic recovery and unconventional shale gas production were the key drivers of natural gas prices in 2009.

The slow pace of the economic recovery did little to improve the sharp drop in natural gas demand from the North American industrial and power generation sectors. Concurrently, although the financial credit crisis resulted in a decrease in traditional natural gas developments, technological advancements led to a rapid increase in unconventional natural gas, predominantly in the production of shale gas. North American production of natural gas from shale was so strong in 2009 that, despite drilling activity dropping to less than half of its 2008 peak, production levels did not materially decline until the fourth quarter of the year. The lower demand and increased production resulted in an overabundance of natural gas inventories in 2009. In late November, natural gas in storage in the United States reached an all-time record high of 3.84 trillion cubic feet. Demand for natural gas began to show signs of recovery in the last quarter of 2009 in conjunction with a modest rebound in market prices.

Within Saskatchewan, demand for natural gas continued to be strong, buoyed by the relatively strong Saskatchewan economy and the preference of natural gas as a cleaner, more cost effective fuel. Driven by the weaker natural gas prices throughout 2009, exploration and production declined noticeably. However, forward market prices remained strong, supporting the industry to develop new, future reserves. SaskEnergy utilized this market opportunity to leverage assets at Beacon Hill and capture some of these margins through a long-term storage strategy.

SaskEnergy sets its commodity rates for 12-month periods in order to provide customers with rate stability. Through the use of storage and a price-risk management program, SaskEnergy was able to reflect purchases made at the 2009 lows in its commodity rate adjustments.

Saskatchewan First Policy

The Provincial Government announced its Saskatchewan First Investment Policy in 2008, which focused on Crown corporations working with the private sector to encourage Saskatchewan-based investments. A focus on Saskatchewan investment opportunities will add value to the Province and create growth opportunities for SaskEnergy.

As part of the Corporation's commitment to the Saskatchewan First Investment Policy, SaskEnergy successfully completed a transaction in November 2009 to divest of its 50.1 per cent holding of Heritage Gas Limited in Nova Scotia. Proceeds of $73.3 million were used to reduce debt and supplement the dividend paid to the shareholder on the resulting gain on sale of $8.4 million. The Corporation's strong debt to equity ratio will further the Corporation's ability to invest in Saskatchewan-based opportunities in the energy sector and its core network. For example, during 2009, SaskEnergy, together with its joint venture partner ATCO Midstream Ltd., initiated an expansion in southeast Saskatchewan at the Kisbey Natural Gas Processing Plant, a $43 million project to be completed in the first half of 2010. Concurrently, SaskEnergy will continue to work towards a pragmatic exit from its two remaining out-of-Province equity holdings in Chile (Gas Sur) and Mexico (Igasamex).

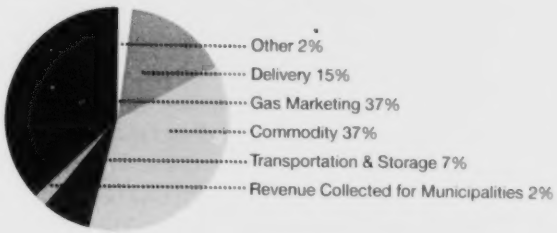
This shift in growth priorities to a focus on Saskatchewan business opportunities is integral to SaskEnergy's growth. Therefore, the Corporation is aligned with the Saskatchewan First Investment Policy. SaskEnergy has integrated Saskatchewan-based business development opportunities into its Strategic Plan within the context of helping to ensure that Saskatchewan's economy and energy sectors remain strong. These initiatives will be undertaken with private sector involvement in the form of both direct and joint ownership structures to leverage our energy partners' expertise and capital while managing the business challenges of new developments in the Province.

CONSOLIDATED FINANCIAL RESULTS

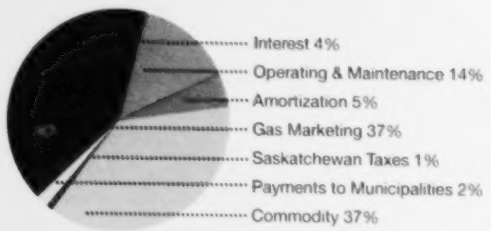
Net Income *($ millions)*

	2008	2009
Net Income	30	93

Total Revenue Composition 2009



Total Expense Composition 2009



Overview

Due to the sale of Heritage Gas and the subsequent winding up of Nova Scotia Holdings operations, the Corporation has removed the results of Nova Scotia Holdings and Heritage Gas from its current and comparative results for revenue and expenses. For more information, refer to note 10 in the notes to the Consolidated Financial Statements.

The consolidated financial results encompass SaskEnergy and its wholly owned subsidiaries. SaskEnergy's consolidated group of companies generated net income of $93 million in 2009, including fair value adjustments and declared dividends of $51 million to CIC.

Total revenue for 2009 was eight per cent lower than in 2008 as sales to utility customers and sales from gas marketing activities decreased due to lower natural gas prices, which were partially offset by increased volume as a result of colder than normal weather. Additionally, delivery revenue increased due to growth in volumes of natural gas distributed to customers and higher delivery rates.

With regard to expenses, lower prices paid for natural gas were partially offset by increased volumes, resulting in a reduction in both the commodity cost of gas sold and the gas marketing cost of gas sold. Consequently, total expenses were 13 per cent lower than in 2008.

Although total revenue was lower in 2009, it was offset by an even larger decrease in total expenses, which resulted in an increase in net income from $30 million in 2008 to $93 million in 2009. Included in 2009 net income was $29 million of favourable fair value adjustments related to financial instruments compared to $25 million of unfavourable fair value adjustments in 2008. As a result, net income before the impacts of fair value adjustments was $64 million in 2009 and $55 million in 2008. Dividends are paid to CIC based on this figure. It is important to recognize that the commodity and gas marketing margins and fair value accounting will produce significant variability in net income levels year over year.

As governments and the general public continue to focus on the environment, SaskEnergy expects a

strong demand for natural gas – the cleanest burning fossil fuel. Opportunities in business development will further expand SaskEnergy's business within Saskatchewan, while at the same time helping the environment. Expanding demand for natural gas is expected to result in modest growth for the well-established distribution and transmission utilities. The Corporation also anticipates additional margins from gas marketing activities as market opportunities become available. With a solid financial position and a positive outlook for the future, the Corporation anticipates strong financial returns with a net income target of $58 million for 2010. The annual net income forecasted excludes the impact of accounting standards related to fair value adjustments for financial instruments. These adjustments are not known until the end of the fiscal year.

Commodity Margin

The commodity rate that SaskEnergy charges distribution system customers is designed to ensure that, in the long term, the Corporation neither profits from nor incurs a loss on the sale of natural gas. Whereas the price SaskEnergy pays to procure natural gas for its customers in the open market constantly fluctuates throughout the year, the commodity rate remains fixed until a new rate is approved by the Provincial Cabinet.

The Gas Cost Variance Account (GCVA), which is not recorded in the Corporation's financial statements, is used for rate-setting purposes to track the variances between the cost of natural gas sold and the revenue earned through the commodity rate. Balances in the GCVA are either refunded to, or collected from customers as part of future commodity rate applications. The GCVA is audited annually by the Provincial Auditor. The financial information and related audit report are then provided to the Saskatchewan Rate Review Panel (SRRP).

In the first quarter of 2009, SaskEnergy's commodity rate was $8.51 per GJ, and from April 1 to October 31 the commodity rate was $5.96 per GJ. Rounding out the year from November 1 to December 31, the commodity rate was $5.21 per GJ. The average commodity rate was $6.77 per GJ in 2009 compared to an average rate of $7.24 per GJ in 2008. The lower average rate, combined with increased volumes sold of 61 PJ in 2009 compared to 58 PJ in 2008, resulted in commodity sales of $451 million ($19 million higher than commodity sales of $432 million in 2008). This included the impact of the natural gas purchase price risk management program in 2009.

Volatility of natural gas purchase prices and a downward movement of market prices during 2009 resulted in an average cost of natural gas of

Commodity Margin (*$ millions*)

	2008	2009
Commodity sales	432	451
Commodity cost of gas sold	(470)	(418)
Commodity margin (loss)	(38)	33
Less: Fair value adjustments	47	(21)
Realized commodity margin	9	12

$6.51 per GJ, which was lower than the 2008 average cost of $7.85 per GJ. As a result, the commodity cost of gas sold was $418 million, which was $52 million lower than the $470 million paid in 2008.

SaskEnergy utilizes a natural gas purchase price risk management program to assist in managing the volatility of natural gas purchase prices so that the Corporation can deliver stable, competitive commodity rates to its customers. With purchase prices for natural gas often based on a floating index price, the Corporation may use derivative instruments, primarily contracts for the physical delivery of natural gas (physical contracts), natural gas financial price swaps (swaps) and natural gas financial price options (options) to effectively manage the future purchase price of natural gas. The use of derivative instruments is governed by the Corporate Derivatives Policy and related Natural Gas Price Risk Management Policy. Between the time the derivative contract is entered into and the contract is settled, changes in the fair value of the derivative contract are recorded as either commodity sales or commodity cost of gas sold, depending on the nature of the contract. Upon settlement of the contract, the amount paid or received by SaskEnergy is recorded as commodity sales or commodity cost of gas sold.

The commodity margin, which is commodity sales less the commodity cost of gas sold, is affected by the difference between the commodity rate and the purchase price paid for the natural gas sold as well as the volume of natural gas sold. The commodity margin for 2009 was a $33 million gain versus a $38 million loss in 2008. However, included in the 2009 gain on commodity sales was a $21 million favourable fair value adjustment resulting in a realized commodity margin of $12 million. This compared to a $47 million unfavourable fair value adjustment and a $9 million realized commodity margin in 2008, both of which are reflected in the GCVA.

The favourable fair value adjustment of $21 million for commodity cost of gas sold includes the reversal of the previous year's $43 million unfavourable fair value of derivative instruments as well as the current year's unfavourable fair value of derivative instruments of $22 million. The $22 million unfavourable fair value was primarily due to future purchases with an average purchase price of $5.97 per GJ compared to a market price of $5.45 per GJ at December 31, 2009.

Gas Marketing Margin

A component of SaskEnergy's gas marketing activity is the sale of natural gas from a Bayhurst-owned storage facility in west-central Saskatchewan, which was in the

Gas Marketing Margin (*$ millions*)

	2008	2009
Gas marketing sales	576	446
Gas marketing cost of gas sold	(539)	(417)
Gas marketing margin	37	29
Less: Fair value adjustments	(23)	(9)
Realized gas marketing margin	14	20

process of being decommissioned. Although natural gas was continually being removed during the decommissioning phase, an opportunity was identified in 2009 to re-inject natural gas into the facility. This re-injection capability has enabled the Corporation to establish a program whereby it purchases natural gas during periods of relatively low prices, injects it into the facility and resells it later to earn a margin. In 2009, 30 PJ of natural gas was injected into the facility and will be sold over the next five years.

The Corporation also optimizes its contracted transmission and storage capacity during off-peak periods by purchasing and selling natural gas in the open market to provide customer rate benefits and generate an additional margin. Additionally, through a competitive bid process, SaskEnergy provides certain Saskatchewan large end-use customers with natural gas and related natural gas management services.

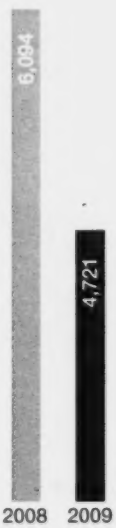
When conducting its gas marketing activities, the Corporation enters into purchase and sale transactions in the open market. Given the volatility of market prices, these transactions are subject to natural gas price risk. Similar to the commodity margin, in order to manage natural gas price risk for its gas marketing activities, the Corporation may use derivative instruments, principally physical contracts and swaps. Derivative contracts are recorded at fair value until the date of settlement, with changes in fair value recorded in either gas marketing sales or gas marketing cost of gas sold, depending on the type of transaction.

For the year ended December 31, 2009, the Corporation generated $446 million in gas marketing sales compared to $576 million in gas marketing sales in 2008. This reflects the lower price of natural gas during the year as volumes sold actually increased by 27 PJ. Gas marketing cost of gas sold was $417 million, versus $539 million in 2008. As a result, the gas marketing margin in 2009 was $29 million, compared to $37 million in 2008, an $8 million decrease.

For 2009, a $9 million favourable fair value adjustment increased the gas marketing margin. This fair value adjustment was primarily due to future contracts with an average selling price of $6.73 per GJ, compared to a market price of $5.74 per GJ at December 31. In 2008, there was a $23 million favourable fair value adjustment that increased the gas marketing margin. On a realized basis, the gas marketing margin was $20 million for 2009, compared to $14 million for 2008.

Delivery Revenue

In 2009, delivery revenue was $184 million, which was $9 million higher than the $175 million in 2008. Because the primary reason SaskEnergy customers consume natural gas is for space heating purposes, winter weather (November to March) significantly influences volumes distributed. Volumes distributed in 2009 rose to 67 PJ compared to 65 PJ in 2008. Consistent with the growth in volumes, 2009 was 12 per cent colder than normal (normal determined



Customer Growth
(Net New Customers)

by the 30-year average), while 2008 was 5 per cent colder than normal.

In addition to winter weather, the actual volume delivered is affected by the number of customers on the distribution system and the average usage per customer. During the past two years, SaskEnergy has experienced a comparatively high level of growth in net new customer connections. In 2009, new customer connections were located throughout the Province as SaskEnergy added customers in 344 communities.

Consistent with the increased emphasis on energy conservation, there has been a reduction in the average usage of natural gas on a per customer basis. This reduction is a result of improvements in building insulation, the introduction of new housing stock, development of more energy efficient natural gas equipment and a general focus on energy conservation by customers. Although these initiatives reduce delivery revenue per customer, energy conservation is important to the future sustainability of SaskEnergy's distribution system. In fact, SaskEnergy administers Provincial and Federal Government energy conservation programs to help consumers use natural gas more efficiently, thereby encouraging them to choose natural gas to meet their long-term energy needs.

Transportation and Storage Revenue

The level of natural gas drilling activity in Saskatchewan, as well as the level of production from existing natural gas wells, has a direct impact on provincial natural gas production. The number of natural gas wells drilled in the Province decreased substantially from 1,203 in 2008 to 230 in 2009. The decline in drilling occurred across Western Canadian conventional natural gas production areas and was strongly influenced by production costs as well as lower natural gas prices experienced in 2009. Therefore, natural gas production in Saskatchewan continues to decline, resulting in lower transportation flows on the transmission system.

Deliveries by the transmission system to customers within Saskatchewan, or to points where the natural gas is subsequently exported, are based on the volume of receipts onto the system as well as withdrawals from storage. Contracted capacity for deliveries within Saskatchewan remained relatively stable. However, export volumes were down. While overall receipt volumes remained relatively stable, receipt of Saskatchewan-produced natural gas was down. There was an increase in Alberta receipts, however, this natural gas was injected into storage. Consequently, the volume of natural gas exported declined to 41 PJ in 2009 compared to 54 PJ in 2008.

Underground natural gas storage facilities offer customers an essential service in managing their natural gas supply. The strong demand for storage services continued as storage service was fully contracted for the twelfth consecutive year. Driven primarily by the reduction in transmission revenue, TransGas rates were increased by an average of 8.6 per cent on February 1, 2009. Coupled with the rate increase, a number of cost reduction measures were also implemented.

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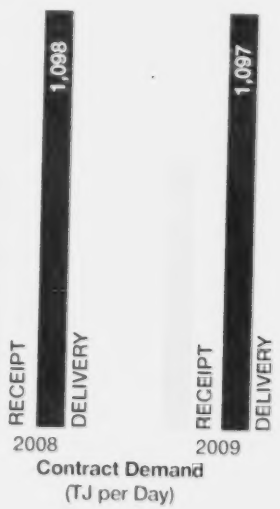


The transmission and storage rate adjustments, partially offset by lower transportation volumes, resulted in increased transmission and storage revenue of $80 million in 2009 compared to $77 million in 2008.

Revenue Collected for and Paid to Municipalities

Under provisions of *The SaskEnergy Act*, the Corporation is required to collect a percentage of natural gas sales to, or natural gas transported for customers on behalf of municipalities. The Corporation then remits the full amounts collected to the respective municipalities. The Corporation does not profit on these transactions. The related revenue and expenses were $26 million in 2009 and $25 million in 2008.

Other Revenue

Other revenue, which includes royalty revenue, natural gas and liquid sales and income from equity investments, decreased by $6 million compared to the prior year.

Revenue from a gross overriding royalty on 450 natural gas-producing properties in Saskatchewan and Alberta was $3 million in 2009. Compared to 2008, lower average natural gas selling prices resulted in a decrease of $3 million in royalty revenue.

The Corporation generated $4 million in revenue through its natural gas processing operations. This was a decrease of $4 million as average prices for products were lower due to the reduction in commodity prices for the majority of the year.

SEII holds equity investments in Gas Sur and Igasamex, which operate natural gas-related businesses in Chile and Mexico respectively. The Corporation's share of income from these equity investments was $3 million, approximately $1 million higher than the prior year. SEII's share of Igasamex's 2009 net income was $2 million. Igasamex's net income was $5 million, which was $3 million higher than 2008 as Igasamex continued to have success signing and connecting new industrial customers.

SEII's share of Gas Sur's 2009 net income was $1 million. Gas Sur's net income of $3 million was $1 million higher than 2008, reflecting slightly lower natural gas costs. SaskEnergy will continue to work towards a pragmatic exit from its two remaining out-of-Province equity holdings in Chile (Gas Sur) and Mexico (Igasamex).

Sale of Heritage Gas Limited

On October 1, 2009, the Corporation sold its 50.1 per cent interest in Heritage Gas Limited for net proceeds of $73.3 million resulting in a gain of $8.4 million. For further information, see note 10 of the Consolidated Financial Statements.

Discontinued Operations – Nova Scotia Holdings Ltd.

During the fourth quarter of 2009, the Corporation approved a plan to wind up operations of its wholly owned subsidiary Nova Scotia Holdings Ltd. As a result, the Corporation classified the operating results of Nova Scotia Holdings Ltd. as discontinued operations in 2009. The net income from discontinued operations was $5 million for 2009. For further information, see note 10 of the Consolidated Financial Statements.

Operating and Maintenance Expenses

Operating and maintenance expenses were $148 million for 2009, which was an increase of $10 million (7 per cent) over 2008. The increased operating and maintenance expenses for 2009 were attributable to higher labour costs as well as higher third-party contractor costs. Also affecting the increase was a change in accounting policy for intangible assets, resulting in more of these costs being expensed rather than capitalized as was done in the past.

In order to ensure the safe and reliable operation of over 80,000 km of transmission and distribution pipeline systems that serve over 347,000 customers, SaskEnergy employs approximately 1,100 people, including temporary and seasonal staff. The competitive labour market in the Province resulted in increased labour costs as the Corporation needed to attract and retain skilled and knowledgeable staff.

Growth in customer connection activity levels also contributed to pressures on operating costs. The incremental workload related to activation of new customers was performed by staff during normal business hours. As a result, a certain amount of regular maintenance activities were completed after normal working hours or through the use of contractors, increasing both labour and third-party contractor costs. In a similar manner, additional work was required to alter underground facilities for improvement projects undertaken by customers.

As a result of strong economic activity within the Province, there was a nearly four per cent increase or approximately 2,250 more line locate requests from the public to have SaskEnergy locate and mark its underground facilities. For safety reasons, line location services are imperative in preventing third parties from contacting underground natural gas facilities.

With rising cost pressures, SaskEnergy is continually looking for ways to become more efficient. Some initiatives that the Corporation implemented to reduce costs included electronic billing and the implementation of a mobile work management system whereby service technicians are dispatched to work assignments via computers within their vehicles. In total, $6 million in proposed efficiencies are targeted for 2010.

Interest Expense

There was a $2 million increase in interest expense from 2008 to 2009, reflecting an increase in interest on long-term debt partially offset by a decrease in interest on short-term debt. The increase in interest on long-term debt was directly related to the purchase of natural gas injected into the Bayhurst storage facility.

The Corporation repaid $39 million of long-term debt with an average interest rate of 9.8 per cent during the year. It issued $83 million in long-term debt with an average interest rate of 3.2 per cent in the first and last quarter of the year.

Amortization Expense

Due to a higher asset base, amortization expenses of $57 million were $2 million above the previous year.

Saskatchewan Taxes

Saskatchewan taxes include corporate capital taxes paid to the Province on capital employed as well as property taxes paid to municipalities. Saskatchewan taxes of $8 million were incurred in 2009, which was consistent with 2008.

LIQUIDITY AND CAPITAL RESOURCES

Cash from operations and debt borrowed from the Province of Saskatchewan's General Revenue Fund are the primary sources of liquidity and capital for SaskEnergy. Sources of liquidity include Order in Council authority to borrow up to $400 million in short-term loans from the General Revenue Fund and a $35 million line of credit with the Toronto-Dominion Bank. Over the longer term, *The SaskEnergy Act* allows the Corporation to borrow up to $1.3 billion of debt.

On average, SaskEnergy generates approximately $100 million of cash from operations per year. Looking forward, SaskEnergy's ability to generate cash from operations, together with the $400 million of short-term debt the Corporation is authorized to borrow, provides sufficient liquidity and capital to meet its near-term funding requirements.

The volatility of natural gas prices contributes to the liquidity risk inherent in the distribution utility business. A sudden increase in natural gas costs could result in a significant net cash outflow before the rates charged to customers can be adjusted to reflect the higher costs. In the interim, SaskEnergy relies on its credit lines to fund the difference between the cost of natural gas and the revenue earned on its commodity sales to distribution utility customers.

Due to the nature of SaskEnergy's distribution utility business, cash flows tend to be cyclical as winter weather produces the majority of commodity sales, while natural gas purchases are distributed throughout the year. In the summer, purchases in excess of sales are injected into storage, while in the winter, sales volumes in excess of purchase volumes are withdrawn from storage. Consequently, cash receipts tend to exceed cash expenditures from December to May, while cash expenditures tend to exceed cash receipts from June to November. SaskEnergy relies on temporary loans from the General Revenue Fund to finance natural gas injections into storage during the summer. These loans are then repaid between December and May as customers pay for natural gas consumed for heating purposes during the winter months.

The loss of liquidity and rising credit spreads during 2008 and early 2009 had relatively little effect on SaskEnergy. The Corporation was able to obtain short-term loans from the Province of Saskatchewan as required, and its uncommitted line of credit with the Toronto-Dominion Bank remained unchanged. SaskEnergy's access to long-term capital is strengthened by its ability to borrow debt through the Province of Saskatchewan. SaskEnergy borrowed $50 million of long-term debt in March and an additional $33 million in November. The Province also continued to have good access to short-term money markets. The interest rate on these most recent debt issues compares favourably to the lowest rates on SaskEnergy's overall debt portfolio.

SaskEnergy's debt to equity ratio was 64 per cent debt and 36 per cent equity at the end of 2009. Proceeds of $73.3 million from the sale of the Corporation's 50.1 per cent interest in Heritage Gas Limited in November were used to reduce short-term debt and improve the Corporation's debt to equity ratio bringing it closer to industry norms.

Cash Provided by Operating Activities

In 2009, cash provided by operating activities increased significantly versus 2008. Earnings net of non-cash items (i.e. amortization and fair value adjustments) were $107 million, which was comparable to, but slightly lower than earnings net of non-cash items in the previous year. Cash from operations would have been even higher. However SaskEnergy undertook a strategy to purchase lower priced natural gas during the year and increase its storage levels. This additional natural gas in storage was purchased for gas marketing activities and will be held for resale in 2010 and subsequent years when it is expected to generate additional profit and cash flow for the Corporation.

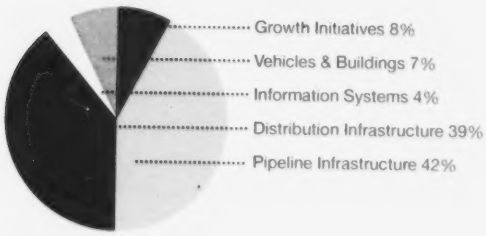
Cash Provided by Operating Activities (*$ millions*)

	2008	2009
Earnings net of non-cash items	109	107
Net change in non-cash working capital related to operations	(98)	(31)
Cash provided by operations	11	76

Cash Used by Investing Activities

In 2009, cash used for investing activities was $26 million, compared to $82 million in 2008. Investments were made as follows:

Total Investment Activities 2009



SaskEnergy is planning future capital expenditures of approximately $103 million in 2010. Most of this additional capital will be spent towards maintaining, improving and expanding the natural gas transmission and distribution systems within the Province. Approximately $4.9 million of that amount has been designated for new business development projects within the Province of Saskatchewan.

Cash (Used In) Provided by Financing Activities

During 2009, SaskEnergy used $54 million in financing activities. SaskEnergy raised $83 million from the issuance of long-term debt to the General Revenue Fund. The proceeds from these loans were applied to reduce the promissory notes to the Province of Saskatchewan by $55 million and long-term debt repayments, net of debt retirement funds, in the amount of $47 million. SaskEnergy also paid dividends of $36 million to its parent, CIC.

As SaskEnergy pursues its business development strategy over the next three years, it will need to issue sufficient debt in order to repay approximately $130 million of maturing long-term debt and to secure the incremental capital required to pursue its business development opportunities. SaskEnergy currently has access to capital resources needed to accommodate its future funding requirements.

Cash (Used In) Provided by Financing Activities (*$ millions*)

	2008	2009
Proceeds from long-term debt	120	83
Repayments of long-term debt (including debt retirement funds)	(78)	(47)
Dividends paid	(44)	(36)
Increase (decrease) in bank indebtedness and short-term debt	75	(54)
Cash (used in) provided by financing activities	73	(54)

Summary

SaskEnergy's access to capital through the Province of Saskatchewan and the continued profitability of core business operations will provide the capital resources and liquidity needed for the continued operation and expansion of its infrastructure and the development of new business opportunities.

SASKENERGY'S STRATEGIC PLAN AND KEY SUCCESS MEASURES

SaskEnergy's Strategic Plan, which has completed its third full year of implementation, contains four key mandates that support the vision and mission of the Corporation. The Our Future, Our Growth, Our Service and Our People mandates play an important role in helping employees determine how their everyday work and efforts contribute to the direction of the Corporation.

Each year, SaskEnergy comprehensively sets and measures targets for all aspects of its business according to the highest standards – those it sets for itself to "create superior value through innovative energy solutions" as outlined in its strategic vision.

The 2009 SaskEnergy Annual Report reflects the Corporation's efforts to demonstrate best practices in corporate and financial reporting. SaskEnergy benchmarks all activity against best-practice industry standards through a reporting scorecard aligned with the Strategic Plan. Part of the 2009 Management's Discussion and Analysis is based on assessing key success measures found within the scorecard.

This scorecard is representative of SaskEnergy's four key mandates, Our Future, Our Growth, Our Service and Our People, through 41 key success measures used to monitor and direct organizational performance. The Our Future mandate encompasses several key success measures: Competitive Rates, Community Investment, Environment, Governance and Financial Health. These measures are in place to reinforce the Corporation's commitment to achieving sustainable operations within the Province. The Our Growth mandate includes the following specific measures: Core Growth, Business Development and Incremental Net Income from Business Development. These measures reflect the Corporation's Saskatchewan-based growth initiatives and development of new core and non-core business ventures. The Our Service mandate includes the following key success measures: SaskEnergy and TransGas Reliability Indices, Customer Satisfaction, SaskEnergy Response Time Index and TransGas Emergency Index. These measures reflect the Corporation's commitment to providing safe and reliable service and customer service excellence. Finally, the Our People mandate highlights the following measures: Physical Safety, Employee Satisfaction and Representative Workforce. These measures are designed to ensure the future success of the Corporation through a safe, engaged, productive and diverse workforce.

The scorecard provides an all-inclusive picture of the Corporation's 2009 financial results and important operational information about SaskEnergy and its subsidiaries. The future year scorecard targets within the key success measures were assessed in 2009 and reflect the 2010 business plan.

OUR FUTURE

Strategic Measure	2008 Actual	2009 Actual	2009 Target	2010 Target	2011 Target	2012 Target
Competitive Rates						
SaskEnergy Commodity	$864 – Lowest in Canada	$831 – Fourth Quartile	Top Quartile	Top Quartile	Top Quartile	Top Quartile
SaskEnergy Delivery	$381 – Lowest in Canada	$401 – Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada	Lowest in Canada
TransGas Export Rates	Lower than average TCPL (Nova) TransGas 26.3¢/GJ Nova 29.2¢/GJ	Lower than average TCPL (Nova) TransGas 31.0¢/GJ Nova 32.0¢/GJ	Lower than average TCPL (Nova)	Lower than average TCPL (Nova)	Lower than average TCPL (Nova)	Lower than average TCPL (Nova)
Community Investment						
Investment (*millions*)	$1.80	$1.85	$1.60	$1.60	$1.60	$1.60
Projects Supported	1,321	1,229	1,300	1,300	1,300	1,300
Communities Impacted	328	331	270	270	270	270
Percentage of Goods/Services Sourced in Saskatchewan	81%	80%	74%	74%	74%	75%
Total Contracts – Percentage of Aboriginal Labour Content	22%	16%	11%	12%	13%	14%

OUR FUTURE

Strategic Measure	2008 Actual	2009 Actual	2009 Target	2010 Target	2011 Target	2012 Target
Environmental						
Customer Efficiency Programs – # of Customers Impacted (Direct & Indirect)*	New Measure for 2009	4,826 14,983	7,500 15,500	7,500 15,500	7,500 15,500	7,500 15,500
Internal Energy Efficiencies*	New Measure for 2009	290 TJ/year	33 TJ/year	33 TJ/year	33 TJ/year	33 TJ/year
Climate Change & Greenhouse Gas Reductions*	New Measure for 2009	25,145 Tonnes/year	28,000 Tonnes/year	5,000 Tonnes/year	5,000 Tonnes/year	5,000 Tonnes/year
Governance	Substantially Compliant with CSA Governance Guidelines**	Substantially Compliant with CSA Governance Guidelines**	Substantial Compliance with CSA Governance Guidelines**	Substantial Compliance with CSA Governance Guidelines**	Substantial Compliance with CSA Governance Guidelines**	Substantial Compliance with CSA Governance Guidelines**
Financial Health						
Financial Health -Debt/Equity Ratio	66/34	64/36	65/35	68/32	68/32	68/32
Rate of Return on Equity						
-Distribution	1.4%***	16.9%***	8.8%	8.8%	9.9%	9.4%
-TransGas	7.0%	12.9%	8.9%	8.7%	8.7%	8.7%
-Consolidated	12.5%	13.5%	15.3%	12.9%	12.4%	11.6%
Net Income Before Fair Value Adjustments (*millions*)	$55	$64	$72	$58	$57	$55
Capital Investment (net) (*millions*)	$98	$99	$118	$103	$106	$110

* **New measurement created for 2009.**
** **Canadian Securities Administrators (CSA) Corporate Governance Guidelines "National Policy 58-201" and guidelines for disclosure of Corporate Governance Practices "National Instruments 58-101."**
*** **The Distribution Rate of Return on Equity result for 2009 exceeded the target due to favourable results from non-core gas marketing revenue efforts and colder than normal weather throughout the year. The Distribution Rate of Return can also be adversely impacted, as occurred in 2008 through warmer-than-normal weather. Rates are set using rolling 30-year average weather profiles, consistent with industry practice.**
Note: Targets for 2010 and beyond are based on the 2010 business plan.

Competitive Rates

This measure reflects SaskEnergy's and TransGas' commitment to the cost-effective delivery of natural gas services to all customers in Saskatchewan. Competitive rates permit SaskEnergy to support economic growth through an energy advantage of conducting business in the Province.

In 2009, SaskEnergy's commodity rate was comparable to most other Canadian utilities, with an average cost to residential customers of $1,232 per year. Although SaskEnergy did not meet its target of top quartile, the Corporation made two significant applications to decrease its commodity rate. In April 2009, the commodity rate decreased by 30 per cent to $5.96 per GJ and again in November 2009 by another 12.6 per cent to $5.21 per GJ. With both of these rate decreases, customers were paying the lowest commodity price in nine years. Other Canadian utilities adjust their commodity rates more frequently and, therefore, reflected the lower natural gas prices of 2009 earlier than SaskEnergy. SaskEnergy's rate strategy provides price protection for its customers during the winter months when consumption of natural gas is the highest. Over the last number of years, SaskEnergy's natural gas commodity management strategy has produced significant benefits for Saskatchewan consumers. For seven of the last 11 years, the Corporation has offered the lowest provincial commodity rates in Canada.

SaskEnergy met its target of having the lowest residential delivery rates among major utilities across Canada. Based on the previous twelve months, a typical residential customer paid $401 for delivery service. This rate is $21 less than in Calgary, which had the second lowest delivery rate in the country.

SaskEnergy's rates are approved by Provincial Cabinet based on recommendations for proposed rate changes from the Saskatchewan Rate Review Panel (SRRP), an independent body that reviews all rate changes proposed by SaskEnergy.

TransGas, which benchmarks its export rates against those of TCPL (Nova) in Alberta, was successful in meeting its target of having rates lower than average TCPL (Nova) export rates at a rate of 31.0¢ per GJ. In 2009, TransGas rates were one cent less per GJ than those of TCPL (Nova) in Alberta.

Community Investment

SaskEnergy believes that being a responsible and contributing member of the communities it serves is an essential part of its business strategy. Working closely with customers and members of Saskatchewan communities helps to ensure the longevity of successful business operations.

In 2009, SaskEnergy met its financial target by investing $1.85 million in community and charitable sponsorships across the Province. Those sponsorships benefited 1,229 projects in 331 communities. The Corporation strategically prioritizes its sponsorships based on the following categories: Education and Leadership, Community Initiatives, Saskatchewan Pride, Environmental Stewardship and Saskatchewan Growth.

An important element of SaskEnergy's community investment portfolio involves the support of growth in communities throughout the Province. In 2009, SaskEnergy exceeded its target by purchasing 80 per cent of its required goods and services within the Province. Another significant component of SaskEnergy's community investment involves supporting Saskatchewan's strong and vibrant Aboriginal labour market. This emerging market serves as an opportunity to create employment and sustainable business opportunities for Aboriginal people today and into the future. In 2009, SaskEnergy surpassed its goal by awarding 16 per cent of all contracts to Aboriginal businesses.

Environmental

SaskEnergy places a strong emphasis on environmental sustainability. The Corporation partners with the private and public sectors to

develop and introduce energy efficiency programs, opportunities and technologies that play a role in conserving energy and reducing GHG emissions. This measure is used to evaluate the Corporation's environmental impact.

Each year, SaskEnergy develops, delivers and funds several energy efficiency programs and rebates. In 2009, the Corporation impacted 4,826 customers directly, which was short of target. Programs that benefit our customers directly include: the $15 Programmable Thermostat Rebate, the ENERGY STAR® Loan Program, the Commercial Boiler Program, the SaskEnergy Home Check-Up, the Energy Efficient Rebate for New Homes-Gas Appliances rebate and the Home Energy Efficiency Project. The number of customers reached in this category was less than targeted because fewer customers participated in the Programmable Thermostat Rebate and the ENERGY STAR Loan Program than anticipated. Feedback from the industry shows that many customers used cash or already had low interest financing in place for the purchase of new furnaces as they were completing other retrofits in their homes.

By helping 14,983 customers, SaskEnergy was successful in achieving its targeted number of customers indirectly impacted by energy efficiency programs. Programs that have an indirect impact on our customers include: the Saskatchewan EnerGuide for Houses Program (SEGH), the Energy Efficient Rebate for New Homes and the SaskEnergy Network Home Heating Tune Up furnace maintenance and safety programs. SaskEnergy works strategically with the Provincial and Federal Governments to help coordinate and implement a number of these programs. This past year, SaskEnergy was recognized at a national level for having the highest participation rate in the SEGH program across Canada. The program has supported more than $200 million of investment in energy efficiency retrofits in Saskatchewan, supporting both local retail and contracting businesses.

In addition to the measurable customer participation in these programs, other customers may be improving their efficiency through the low-cost and no-cost tips provided on the saskenergy.com website and through other mediums such as trade shows, brochures, radio and television.

In 2009, SaskEnergy improved its level of internal energy efficiency by 290 TJ. This measure significantly exceeded its target of 33 TJ and has helped further SaskEnergy's and TransGas' commitment to environmental sustainability. This major gain in efficiency was largely a result of reduced compression equipment utilization at Beacon Hill, including the Pierceland and Mannville Fields. Although the Corporation made great strides with its internal energy efficiencies, some work remains to be completed in order to meet climate change and GHG reduction targets. Due to certain project delays, the Corporation fell approximately 10 per cent short of reaching its GHG emissions reduction target of 28,000 tonnes. Nevertheless, SaskEnergy/TransGas made considerable progress this year with 25,145 tonnes of GHG emissions being reduced. The Corporation is on schedule to achieve the Provincial Government's "Go Green" target of a 20 per cent reduction of 2006 emission levels by 2020.

Governance

SaskEnergy's commitment to advanced governance practices demonstrates accountability to all stakeholders. Effective governance helps ensure that SaskEnergy operates as a financially viable and responsible Corporation.

SaskEnergy benchmarks its governance practices against the Canadian Securities Administrators (CSA) Corporate Governance guidelines. This measurement ensures that the Corporation's customers and employees receive fair and equitable treatment and that the correct levels of authority and accountability are established so that all employees can accomplish their work without unnecessary

limitations or risks. Full details on corporate governance results are discussed beginning on page 90.

Financial Health

SaskEnergy's financial health is based on the Corporation's maintenance of an appropriate capital structure while providing reasonable industry-standard financial returns to the owner. The Corporation works hard to balance the interests of both the Owner and its customers by focusing on short-term profitability and long-term sustainability.

In 2009, capital expenditures of $130 million were $20 million below the target of $150 million due to the deferral of certain business development projects to 2010. Although the Corporation's capital expenditures were slightly lower than anticipated, additional long-term debt was required for the purchase of natural gas, which was injected into long-term storage and remained there at year end. Proceeds of $73.3 million generated from the sale of Heritage Gas Limited were utilized to reduce debt. Consequently, the debt to equity ratio of 64 per cent debt and 36 per cent equity was better than targeted.

Before the effects of fair value adjustments in 2009, consolidated net income was $64 million, which was $8 million below the $72 million target. This variance was primarily due to lower than anticipated transportation revenues as contract volumes did not reach budget levels, thereby reducing export and receipt revenues. Furthermore, lower than expected results from gas marketing activities were partially offset by a margin on commodity sales resulting from transactions discussed in the consolidated financial results. With consolidated net income lower than anticipated, the rate of return on equity was 13.5 per cent compared to a target of 15.3 per cent.

Our Future Outlook

Each year, organizations strive to seek efficiencies and make decisions that are responsible, profitable and beneficial to customers and stakeholders. As the economy fluctuates, SaskEnergy's fundamental goal will remain the same: provide customers with safe and reliable natural gas service through a competitive rate structure.

SaskEnergy and TransGas respect and value the sound financial policies and governance practices that are used to help successfully guide the Corporation. SaskEnergy's distribution utility and its regulated rates strategy, together with TransGas and Bayhurst's natural gas buy/sell operation provide our customers with competitive and affordable rates. This strategy, combined with strong financial principles, will help manage growth activities to produce appropriate non-regulated returns and support the long-term financial health of the Corporation. SaskEnergy expects growth in both new and existing operations within the Province and projects net income between $55 million and $60 million per year over the next five years.

Moving forward, SaskEnergy is committed to strengthening Saskatchewan communities and the environment. Specifically, the Corporation will work towards the monetization of its out-of-Province investments in Gas Sur and Igasamex, looking to achieve a fair return.

SaskEnergy will operate in an environmentally responsible manner by balancing business requirements with operational and environmental impacts and energy consumption. The Corporation will also work towards the achievement of federal and provincial climate change targets.

A top priority in 2010 will be to continue seeking efficiencies throughout the Corporation. Building on a strong year, SaskEnergy and TransGas will look for more opportunities to minimize costs and look for new opportunities for revenue and efficiency gains. The Corporation will develop relationships and work with community stakeholders and customers to ensure the sustainability of SaskEnergy's operations in the Province.

OUR GROWTH

Strategic Measure	2008 Actual	2009 Actual	2009 Target	2010 Target	2011 Target	2012 Target
Core Growth – Capital Investment in New Infrastructure* (*millions*)						
SaskEnergy (net)**	New Measure for 2009	25.9	20.3	29.2	19.6	18.5
TransGas (net)**		27.8	32.7	23.6	10.6	24.1
Business Development*						
Direct Capital Investment	New Measure for 2009	10.9	27.2	4.9	30.5	34.0
Total Leveraged Capital		44.5	70.2	35.1	34.5	47.0
Incremental Net Income from Business Development*						
New Business Development Saskatchewan Focused	New Measure for 2009	-0.4	2.4	2.5	3.2	4.8
External Investments		15.4	6.5	1.4	–	–

* **New measurement created for 2009.**
** **Net of customer contributions.**
Note: Targets for 2010 and beyond are based on the 2010 business plan.

Core Growth – Capital Investment in New Infrastructure

The Core Growth measurement tracks capital expenditures related to SaskEnergy customer connections and TransGas capital expenditures for storage and transmission system growth.

Given the strength of the Saskatchewan economy in 2009, SaskEnergy met its Capital Investment in New Infrastructure target with a total of $25.9 million expended on system expansions and customer growth. SaskEnergy also experienced strong customer growth in 2009 with almost 5,000 new customer connections.

TransGas' Capital Investment in New Infrastructure measure was slightly below target for the year due to some capital projects being deferred until 2010. In other cases, the economic climate resulted in certain projects costing less than initially anticipated.

Business Development

The Business Development category is comprised of two measures. The Direct Capital Investment measure identifies the amount of capital investment needed to initiate new, non-core business development opportunities in the Province. The Total Leveraged Capital measure records the total estimated capital related to the entire project scope of the business development activities in which SaskEnergy is participating.

In 2009, SaskEnergy did not meet its Direct Capital Investment target. This was largely a result of changes in the business plan for the expansion of the Kisbey Natural Gas Processing Plant. Originally, the expansion was considered to be a larger project. But, project timing was adjusted to reflect commodity, labour and material prices resulting in a delayed completion date, a smaller-scaled project and lower overall project expenditures in 2009.

In addition, the Total Leveraged Capital measure was below target due to delays with a projected TransGas storage expansion that included collaboration with an external party. Further efforts are planned for 2010 to add economic storage capacity that will contribute to corporate income. In 2010, this measure will reflect work completed on the Energy to Store 2 project.

SaskEnergy initiated other non-core business growth for Saskatchewan around innovative energy solutions, the capture of flare gas and other related hydrocarbon liquids, and the evolution of a CO_2 transportation infrastructure. Specific projects included:

Waste Heat Recovery (WHR) – TransGas initiated projects at the Rosetown and Coleville compressor stations to capture waste heat from exhaust stacks. That waste heat will generate electricity for TransGas' own internal use as well as delivery to the SaskPower grid. There are preliminary plans to apply this technology, developed by Innovative Steam Technologies, on a smaller scale to as many as 12 additional compressor units in the TransGas system.

Biomass to methane opportunities – In 2009, SaskEnergy began working with Saskatoon Light & Power on the delivery of a landfill gas-to-methane and power generation project. The results of the study, including business modeling and economic viability, will be available in early 2010. In addition, SaskEnergy is assessing a project to convert forestry residues into pipeline grade methane near La Ronge. SaskEnergy is working with the Saskatchewan Ministry of Environment and other external parties to conduct an assessment of the engineering resources required to ensure technologies can function at the appropriate scale for Saskatchewan.

Straddle Plant – TransGas is assessing the opportunity to partner with a private sector company to construct a straddle plant in southeast Saskatchewan. The objective of the straddle plant would be to capture incremental natural gas liquids, thus generating additional revenues. In 2009, TransGas made progress related to the assessment

of the project. TransGas selected a private sector partner through a Request for Proposal process, and market analysis is underway.

CO_2 Aquistore Project – The Aquistore Project is a multi-stakeholder research partnership with the Petroleum Technology Research Center (PTRC) that will determine the viability of using deep saline aquifers for long-term sequestration of CO_2. SaskEnergy is participating in this partnership to potentially assist with the CO_2 pipeline service component of the project.

Incremental Net Income from Business Development

This measure allows SaskEnergy to monitor the success of new business development initiatives as well as its external investments relative to net income earned each year. The New Business Development target for net income assumes incremental revenues from new business development activities related to natural gas processing, storage and marketing activities.

In 2009, SaskEnergy fell short of achieving its target for Net Income from Business Development initiatives. This was mainly a result of lower than expected natural gas processing income due to a decrease in prices for natural gas and natural gas liquids, an extended plant outage in the fourth quarter of 2009 and a decision to defer completion of the Kisbey Natural Gas Processing Plant expansion.

SaskEnergy's external investments were below target, with net income totaling $15.4 million in 2009. The reduction in operating net income was primarily due to a decision to divest SaskEnergy's interest in Heritage Gas Limited. This out-of-Province investment produced an $8.4 million gain on sale. The Corporation's existing international investments, Gas Sur and Igasamex, were on budget and will be divested with a goal to maximize returns.

In 2009, both international investments were profitable. However, Gas Sur's net income was below target due to electrical transmission interconnection delays resulting in the new electrical turbine being operational for only six months of the year. Igasamex was affected by the global recession due to Mexico's reliance on the US economy. However, Igasamex's annual income was still above target, largely as a result of its success in signing and connecting new industrial customers.

Our Growth Outlook

As business climates continually evolve and change, SaskEnergy recognizes the need to do the same. The Corporation's growth strategy leverages its core expertise to identify and execute profitable new business ventures in Saskatchewan, building on new and existing industry relationships.

Looking ahead, the Corporation plans to expand its transmission, storage and distribution utility infrastructure as well as its service offerings to capture core business growth opportunities. SaskEnergy/TransGas will place emphasis on a diverse group of business projects, including the implementation of CO_2 transportation services, expansion of TransGas storage facilities by 15 per cent, further expansion of WHR technology at TransGas compressor stations and development of a straddle plant in southeast Saskatchewan to extract and market natural gas liquids from natural gas within the TransGas system. The Corporation will devote a sustained focus to the continued use of external partners, expertise and capital to support its core competencies.

Bayhurst Gas' gas marketing strategies will also be used to maximize gas commodity marketing opportunities and profits by leveraging its expertise and long-term storage opportunities at Beacon Hill. The Corporation will build and leverage industry relationships that contribute to the identification and development of new opportunities.

OUR SERVICE

Strategic Measure	2008 Actual	2009 Actual	2009 Target	2010 Target	2011 Target	2012 Target
Reliability Index						
SaskEnergy	7.5	8.2	9.0	9.0	9.0	9.0
TransGas	8.9	9.7	9.2	9.2	9.2	9.2
Customer Satisfaction						
SaskEnergy	87%	88%	85%	85%	85%	85%
TransGas	95%	96%	85%	85%	85%	85%
SaskEnergy Response Time Index*	New Measure for 2009	9.8	9.0	9.0	9.0	9.0
TransGas Emergency Index*	New Measure for 2009	9.3	9.5	9.5	9.5	9.5

* **New measurement for 2009.**
Note: Targets for 2010 and beyond are based on the 2010 business plan.

Reliability Index

The Reliability Index is a measure for determining SaskEnergy's and TransGas' ability to provide service to its customers without disruption. The Reliability Index utilizes several lead indicators, such as the percentage of planned maintenance, training and job observations completed, as well as lag indicators, such as system outages and their related effects on customers. Utilizing a weighted calculation, the Reliability Index calculates the values of both sets of indicators to arrive at a score ranging from 0 to 10, with 10 being the highest attainable score.

SaskEnergy

With a score of 8.2, SaskEnergy's Reliability Index rating for 2009 was very near its target. The lead indicators that influenced this score included a shortfall in completing certain training and job observations. However, all planned maintenance was completed. Specific lag indicators, including 70 unplanned customer outages, also played a role in the results. It is important to note that the 2009 results reflect an increase over the previous year's rating of 7.5.

TransGas

With a score of 9.7, TransGas was successful in meeting its Reliability Index target in 2009. At year end, only four short, unplanned customer outages were on record.

To help ensure a safe and reliable system, TransGas completed over 35 major pipeline integrity projects this year. Those projects consisted of numerous surveys, direct examinations of facilities and In-Line Inspections of pipelines. Such inspections help to extend the life of the system, lower overall risk and ensure public safety and system reliability.

Customer Satisfaction

Customers are vital to a successful business and the Corporation strives to ensure their expectations are not just met, but exceeded. The strong corporate culture of customer service at SaskEnergy encourages employees to find solutions for customers. As a result, employees play a fundamental role in achieving high customer satisfaction ratings.

SaskEnergy

In 2009, SaskEnergy exceeded its customer satisfaction target with 88 per cent of residential customers surveyed rating their satisfaction with the Corporation as a 5, 6 or 7 out of a total of 7, (a score of 7 represents an excellent score) in a residential survey conducted by an independent Saskatchewan-based market research firm. The survey rated SaskEnergy on the following areas: providing reliable service and a high standard of customer service, environmental responsibility, commitment to helping customers use energy responsibly, initiatives to meet customers needs, educating the public and maintaining low rates.

TransGas

Each year, TransGas completes a Customer Satisfaction Survey to measure its progress in several aspects of business: staff, rate applications, reliability of service and customer service excellence. In 2009, TransGas received a composite score of 4.77 out of a possible 5.0 rating. This score represents a 95.5 per cent level of customer satisfaction, slightly higher than the 2008 results of 94.6 per cent. Of the many aspects of service evaluated, TransGas continues to achieve strong satisfaction ratings with most individual categories earning ratings of over 89 per cent.

SaskEnergy Response Time Index

The Response Time Index is based on three key measurables: average response time to all calls, percentage of calls responded to in one hour or less for locations where SaskEnergy staff is on-site and percentage of calls responded to in 1.5 hours or less for all other locations.

In 2009, the overall Response Time Index rating was 9.8, almost one full point above target. SaskEnergy responded to 98 per cent of urban calls within one hour and 97 per cent of rural calls within 1.5 hours. It is important to note that in situations where customer response times exceed one hour, situations are evaluated and, if necessary, contingent actions are taken to ensure customer safety is not compromised.

TransGas Emergency Index

The TransGas Emergency Index rating is based on a number of leading and lagging indicators that are averaged to produce a composite result. The leading indicators include the percentage of completed emergency equipment checks and maintenance exercises, and the number of presentations. The lagging indicators include the number of line hits, spills and emergencies where responses were not in accordance with corporate procedure.

In 2009, TransGas was slightly below target with an Emergency Index rating of 9.3. This measure was affected by planned service checks on key safety equipment at TransGas compressor stations, as well as delivery of table top emergency exercises in the second quarter of the year. The target was achieved in all other quarters.

Our Service Outlook

Looking ahead, SaskEnergy and TransGas will work to stay connected and engaged with their customers, providing them with safe and reliable service. Employees will take time to understand the needs of customers and provide services that earn high customer satisfaction ratings. The Corporation's focus on creating customer solutions will be supported by a corporate culture of creativity and innovation, leveraging technology where applicable.

In 2010, the Corporation will see a large number of technological advancements, including the selection of a new Customer Information System (CIS) and continued deployment of Automated Meter Reading (AMR) technology. Research on, and development of the CIS project will continue, with a goal of achieving a more flexible, centralized and enhanced billing system in 2012. Also, testing of the new AMR technology will help achieve several productivity and efficiency gains. SaskEnergy and TransGas will also be engaged in the development of a Competency Assessment Program, which will be used to determine operator qualification and to identify all skill gaps for training and development.

SaskEnergy and TransGas are committed to achieving continued customer service excellence and to ensuring resources are readily available regardless of organizational, functional and geographical boundaries.

OUR PEOPLE

Strategic Measure	2008 Actual	2009 Actual	2009 Target	2010 Target	2011 Target	2012 Target
Physical Safety						
Lost Time Frequency Rate	Fourth Quartile*	Fourth Quartile*	Top Quartile*	Top Quartile*	Top Quartile*	Top Quartile*
Medical Aid Frequency Rate	Second Quartile*	Second Quartile*	Top Quartile*	Top Quartile*	Top Quartile*	Top Quartile*
Preventable Collision Frequency Rate	Second Quartile*	Second Quartile*	Top Quartile*	Top Quartile*	Top Quartile*	Top Quartile*
Employee Satisfaction						
Hay Group Survey**	Survey not completed in 2008	Second Quartile	Top Quartile	Top Quartile	Top Quartile	Top Quartile
Representative Workforce						
First Nations and Métis	13.7%	13.8%	14.0%	15.5%	16.5%	17.5%
Women in Supervisory Roles***	–	36.2%	36.0%	36.5%	37.0%	38.0%
Youth	17.3%	16.9%	15.0%	16.0%	17.0%	18.0%
People with Disabilities	3.6%	3.5%	4.0%	4.5%	5.0%	5.5%
Visible Minorities	3.4%	3.8%	4.0%	4.5%	5.0%	5.5%
Diversity Hires****	31.5%	29.3%	40.0%	40.0%	40.0%	40.0%

* **Quartile refers to ranking relative to other Canadian Gas Association and Canadian Energy Pipeline Association companies.**
** **The first year SaskEnergy measured employee satisfaction using the Hay Group survey was 2007.**
*** **New measure for 2009.**
**** **Diversity Hires include First Nations/Métis, Women, People with Disabilities and Visible Minorities.**
Note: Targets for 2010 and beyond are based on the 2010 business plan.

Physical Safety

Everyday, SaskEnergy's top priority is to send each and every employee home safely. This strong commitment is reinforced through the Corporation's dedication to attaining high standards in its safety performance measures. SaskEnergy strives to place in the top quartile with respect to the Lost Time, Preventable Vehicle Collision and Medical Aid Frequency Rates relative to other Canadian Gas Association (CGA) and Canadian Energy Pipeline Association (CEPA) companies.

In 2009, the Corporation experienced higher than normal incidents requiring lost time, which played a major role in its fourth quartile rating for its Lost Time Frequency Rating. It is important to note that the majority of incidents resulting in lost time were considered minor in nature. The Medical Aid Frequency Rate was also below target, but an improvement over the 2008 results. While a large majority of the vehicle-related incidents reflected in the Preventable Vehicle Collision Frequency Rate were also considered minor in nature, SaskEnergy recognized the need for a continued focus on safe driving behaviours, including safe backing practices. To create improvements in all of these areas, the Corporation organized driver assessments, training and thorough root cause investigation procedures for incidents. During the 2009 Safety Stand Down Week, a week dedicated to safety awareness, there was also a specific focus on vehicle safety and employee accountability.

Also in 2009, SaskEnergy participated in the industry-based Enform Safety Audit, which is a review of the Corporation's safety measures. SaskEnergy achieved a very positive rating of 95 per cent, which is a further improvement over last year's strong result of 88 per cent. The audit targets several different elements including: communication systems, management commitment and involvement, rules and work procedures, incident reporting and investigation, training and hazard identification, and control.

Employee Satisfaction

SaskEnergy recognizes the direct correlation between engaged employees and a successful organization. That is why the Corporation participated in the Hay Group Survey in both 2007 and 2009. The survey provides an avenue for determining employee satisfaction through the following key areas: overall recognition, decision making/independence, opportunity for personal growth, competitiveness of compensation and benefits, and work/life balance.

In 2009, the Hay Survey results represented a slight decrease in overall satisfaction as compared to the 2007 results. As a result of the survey, SaskEnergy is actively studying the issues identified by employees and constructing a comprehensive plan to address the needs of the Corporation. Nevertheless, this year demonstrated the highest participation in the survey to date with 83 per cent of employees having completed the company-wide survey.

Representative Workforce

To help achieve representative workforce targets, SaskEnergy partners with many local, community-based organizations. Some of the organizations include: the Saskatchewan Tribal Councils, the Regina Open Door Society, the Saskatchewan Independent Living Centre, the Saskatchewan Visible Minority Employees Association as well as educational institutions such as the Saskatchewan Indian Institute of Technology and Gabriel Dumont Technical Institute.

In 2009, SaskEnergy was successful in achieving a majority of its representative workforce targets. Specifically, SaskEnergy's First Nations and Métis results (13.8 per cent) were supported through the Corporation's partnership with the University of Saskatchewan's Aboriginal Centre. This partnership provided the opportunity for new First Nations and Métis employee hires, furthering growth within the

professional/management First Nations and Métis segment of SaskEnergy's workforce. Other positive results included the Youth (36.2 per cent) and Visible Minorities (3.8 per cent) categories, which were on target. The People with Disabilities category (3.5 per cent) was slightly below target, and continued focus will be given to addressing this area in an industry where the physical demands of core business must be balanced against greater integration of disabled individuals into the workforce. The Corporation also met its target for the Women in Supervisory Roles category, which was a new measure in 2009. This positive result reflects the achievements of SaskEnergy's succession management strategy. The strategy provides a proactive method for senior management to identify and provide the appropriate training and coaching to women interested in assuming management roles.

Overall, Diversity Hires (29.31 per cent) were below the stretch target of 40 per cent. This was primarily due to the Corporation's limited hiring requirements in 2009. Although the Corporation strives to achieve a high diversity rate, it also recognizes the importance of hiring youth, which is a group that is not included as part of the overall diversity target. In 2009, SaskEnergy was successful in hiring 63 per cent of its employees from the youth or diversity categories.

Our People Outlook

SaskEnergy and TransGas are committed to creating a healthy workplace environment where employees are engaged and share the realization of business results. Moving forward, the Corporation will anticipate future workplace requirements, including the need to deliver effective training, coaching and mentorship of employees, as well as work to reinforce managers' and supervisors' leadership roles in employee coaching and accountability. The Corporation will work with the Communications, Energy & Paperworkers Union (CEP) Local 649 to negotiate a new Collective Bargaining Agreement in 2010. SaskEnergy will also place emphasis on recruitment and retention to help mitigate the effects of an ageing workforce.

In 2010, SaskEnergy will promote a positive and welcoming work environment and a healthy work/life balance. SaskEnergy will also provide motivated employees with career learning opportunities. Specific initiatives include continuing to provide the option of a compressed work week where customer service is not adversely affected and the use of personal development plans for all employees. Through continued recruitment of First Nations and Métis, youth, women in supervisory roles, visible minorities and people with disabilities, SaskEnergy is committed to moving closer to a fully representative workforce.

RISK MANAGEMENT

The transmission, storage, distribution and sale of natural gas are subject to a number of risks that can affect SaskEnergy's success in achieving its business objectives. These risks, their potential impact on business and SaskEnergy's risk management strategies are discussed in the following table. SaskEnergy's approach to risk management is to take only those risks for which it has appropriate resources, expertise and financial capacity to manage.

RISK TYPE	SIGNIFICANCE	DESCRIPTION	IMPACT	HOW IS IT MANAGED?
Natural gas price risk	Very High	SaskEnergy's exposure to natural gas price risk occurs primarily because the Corporation purchases natural gas at variable market prices and resells it to utility customers at fixed rates.	A $1.00 per GJ change in the market price of natural gas affects the annual purchase cost of natural gas by approximately $55 million.	The risk of natural gas costs rising above the rate at which the natural gas is sold to utility customers is mitigated through SaskEnergy's natural gas price risk management program. Also, SaskEnergy accumulates differences between the cost of gas sold and its rate in a GCVA. The balance in the GCVA may be recovered from or refunded to customers in subsequent periods.
		SaskEnergy buys and sells natural gas in its natural gas marketing business and may be exposed to price movement over short periods.	Losses are limited by policy to less than $2 million per year.	Natural gas price risk is subject to the Natural Gas Marketing Risk Management Policy, which limits exposure to price volatility and establishes a program to measure, monitor and report on daily natural gas price risk.
Winter weather	High	In Saskatchewan, variability in winter weather temperature has a direct impact on the volume of natural gas consumed by utility customers. Generally, a cold winter will result in higher natural gas purchase prices, while a warm winter will result in lower prices.	Every 10 per cent change in heating degree days affects SaskEnergy's distribution utility revenue by approximately $7 million.	SaskEnergy earns a portion of its revenue through a fixed basic monthly charge that ensures revenue generation from customers regardless of the level of natural gas consumption. The impact of higher or lower natural gas prices is discussed above under the natural gas price risk discussion.
Operational risk	High	Operational hazards include severe weather conditions, fire, human error, mechanical failures, third-party pipeline encroachment, hazardous materials and acts of civil disobedience, sabotage and riots. Operational hazards could disrupt the effective operation of SaskEnergy's natural gas storage, distribution or transmission infrastructure, resulting in potential financial loss or service interruption.	The operational risks threaten service reliability and employee and public safety, and cause pipeline damages requiring financial investments for repairs.	SaskEnergy mitigates its operational risks through system integrity programs, public awareness programs, employee and operator training, operating manuals and procedures, and safety programs. The financial impacts of risks are also mitigated, where possible, through insurance. Additionally, the pipeline system is designed to meet customer demand in an extremely cold winter. When the system is not operating at capacity, the winter design capacity enables the system to meet demand even in the event of a disruption.
Regulatory risk	High	The rates that utilities may charge their customers are determined by a regulatory process. The recommendations of the regulatory body, the Saskatchewan Rate Review Panel, and the decisions by Provincial Cabinet have a direct effect on the financial results of the utility.	The impact of a one per cent differential between a commodity rate increase request and an approved commodity rate is approximately $4 million.	SaskEnergy follows standard regulatory principles in designing rates and operating its system, and presents these practices to the regulator in its rate applications.

RISK TYPE	SIGNIFICANCE	DESCRIPTION	IMPACT	HOW IS IT MANAGED?
Execution risk	Moderate	A shortage of manpower or expertise adversely affects SaskEnergy's ability to properly assess or implement an effective business development strategy.	Growth opportunities are less profitable than current enterprise, reducing overall profit.	SaskEnergy has implemented a Strategic Plan to ensure that adequate resources are acquired and applied in areas of highest priority.
Special interests	Moderate	SaskEnergy is exposed to the risk of higher costs, delays or even project cancellations due to pressure by landowners and other special interest groups. Recent Supreme Court decisions have increased the ability of special interest groups to make claims and oppose projects in regulatory and legal forums.	Delays and increased costs in the construction of projects.	SaskEnergy works proactively with landowners and other interest groups to identify and develop appropriate responses to concerns regarding its projects program.
Interest rate risk	Moderate	SaskEnergy has a significant capital investment in physical assets. About 65 per cent of that investment is financed by issuing debt. The interest paid on debt used to finance assets is a significant component of SaskEnergy's cost structure.	For every $10 million of debt issued in a year, a 0.25 per cent change in the interest rate will affect annual interest expense by approximately $25,000. SaskEnergy refinances approximately $50 million of long-term debt each year.	SaskEnergy manages interest rate risk by financing long-term capital requirements with long-term fixed rate debt, thereby minimizing the impact of changing interest rates on financial results. Furthermore, SaskEnergy manages the maturity dates on its debt to minimize the impact of interest rate risk in any single year. In addition, SaskEnergy may use financial instruments to hedge short-term debt from changes in interest rates.
Declining system throughput	Moderate	While there are currently adequate supplies of natural gas to meet demand within Saskatchewan, the age and declining reserve life of the Western Canadian Sedimentary Basin remains a long-term issue.	As throughput declines, the unit cost of service increases.	SaskEnergy promotes the conservation efforts of its customers. In the future, nonconventional sources of natural gas, such as the Mackenzie Valley Pipeline, natural gas in coal and liquefied natural gas, will supplement conventional supplies.
		Conservation initiatives by customers have reduced the average volume of natural gas usage per customer. Conservation initiatives tend to have a higher impact on customer usage in a high natural gas price environment.	As use per customer declines, fixed costs of the pipeline system are recovered over lower sales volumes.	SaskEnergy incorporates an assumption for declining use per customer in its revenue forecasts and rate setting process.

RISK TYPE	SIGNIFICANCE	DESCRIPTION	IMPACT	HOW IS IT MANAGED?
Counterparty credit risk	Moderate	Failure of a counterparty to fulfill contractual financial commitments due to financial distresses such as bankruptcy and insolvency.	The amount of credit extended to individual counterparties is limited so that the annual expected loss should average less than $4 million and should never exceed $30 million in a single year.	SaskEnergy mitigates credit risk by constantly reviewing the creditworthiness of large customers and contractual counterparties, limiting the maximum amount of credit extended to any entity and continually monitoring its customer and counterparty credit. Additionally, credit checks and reviews are performed before any transactions are completed, and entities judged to have inadequate credit are required to post security.
Environmental risk	Moderate	The gathering, compression, storage, transmission and distribution of natural gas involve the use of certain chemicals and materials that are considered hazardous to the environment and require special handling procedures. Federal Government GHG conventions present additional risk to SaskEnergy because methane, the largest component of natural gas, is considered a GHG. Consequently, the release of natural gas into the environment may contribute to global warming.	Uncontrolled release of liquid substances or natural gas into the environment (soil, water and air).	The environmental risks presented by natural gas and certain chemicals and materials are mitigated by proper handling and containment procedures, product substitution and employee and operator training. SaskEnergy is working to reduce its GHG emissions to limit its impact on the environment and to manage the financial risks associated with this environmental issue.
Provincial economy	Low	SaskEnergy currently serves more than 92 per cent of all communities in Saskatchewan. It is becoming increasingly difficult to economically expand service to areas not currently receiving natural gas distribution service. Opportunities to expand service within the existing service area depend upon economic growth. Recently, economic growth has put pressure on SaskEnergy's capacity to meet demand for new service.	Growth in the number of customers within existing service areas helps to reduce the unit cost of service. Higher construction and maintenance costs.	SaskEnergy has cost containment strategies to ensure that rising costs do not significantly exceed the growth of the system. Service is only expanded where anticipated incremental revenue is sufficient to recover incremental costs of service. This ensures that existing customers are not adversely affected by the addition of new customers. SaskEnergy has franchise rights to provide distribution service to customers within Saskatchewan and an implied obligation to meet customer demand where economically feasible.

STAKEHOLDER ENGAGEMENT

Communication Models Employed at SaskEnergy

Strong two-way communication models support the achievement of business and corporate results. That is why the Corporation is committed to rigorous and professional communication practices that support the principles of timeliness, openness and transparency with all of its many stakeholder groups.

Customer and Public Communications

As a result of continued business growth, customer contact is increasing at SaskEnergy. In 2009, SaskEnergy estimated that it made contact with its 347,000 plus customers on more than one million occasions. In addition to standard customer billing and meter reading inquiries, growth has occurred relative to the *Sask 1st Call* service. *Sask 1st Call* provides initial customer contact for 30 companies with underground facilities, including SaskEnergy and TransGas. More than 225,000 tickets were produced by *Sask 1st Call* in 2009. To successfully manage increasing customer contact within the existing cost structure, SaskEnergy has also instituted response specialization at its 11 regional customer service offices. For example, the Weyburn customer service office acts as a clearing centre for all web-related inquiries. TransGas fosters personal contact with its smaller transportation and storage customer base of less than 200 through dedicated account representatives. It also promotes contact through the TransGas Customer Dialogue Process where customer rates and operational policies are jointly addressed before recommended implementation.

SaskEnergy also works with the plumbing, heating and mechanical contracting industry, as highlighted by the Industry Dialogue process and the creation of the SaskEnergy Network, through which 140 private sector plumbing and heating contractors can use the SaskEnergy brand to deliver downstream services to natural gas customers. SaskEnergy and the Mechanical Contractors Association of Saskatchewan also co-operated on the development of a Provincial Technical Training Centre in Saskatoon, which opened in November, 2009.

Critical corporate initiatives, such as creating public awareness around energy efficiency and public safety ("Call Before You Dig") are also promoted through multi-media advertising and communications campaigns, as well as direct-contact programs, such as contractor safety breakfasts, first responder training sessions and landowner mail outs. Major corporate initiatives, such as changes to the Corporation's delivery or commodity rates, are communicated through news conferences and public events, and are supported through information distributed through SaskEnergy's website and on customer bills. Enhanced tools, such as e-billing and equalized payment plans, allow customers greater control over the management of their natural gas bills.

The SaskEnergy website also provides access to corporate information, such as quarterly financial updates and annual reports, energy efficiency-related information and suggested safety measures, as well as opportunities for charities and non-profits to request financial support through the Corporation's community investment program.

SaskEnergy's public and customer communications efforts have helped secure its position as a leading Canadian utility in customer satisfaction. In 2009, SaskEnergy finished second among 10 national natural gas and electrical companies in an independent survey of more than 3,000 national customers regarding customer satisfaction. Each year, TransGas also completes a Customer Satisfaction Survey to evaluate its progress in several areas of business: staff, rate applications, reliability of service and customer service excellence. In 2009, TransGas achieved a 95.5 per cent level of customer satisfaction.

Shareholder Communications

As a Crown corporation, SaskEnergy complies with the communications requirements set by the shareholder and by statute, and operates in accordance with the Board-approved external communications policy. Through the Board Chair, the Board is accountable to the Minister Responsible for SaskEnergy. The Minister functions as a communications liaison between the Corporation, Crown Investments Corporation, Cabinet, the Provincial Legislature and the public.

SaskEnergy fully complies with its statutory obligations for approval and disclosure of information. These responsibilities include:

- annual approval of the Corporation's business/performance management plan, including capital expenditures through its holding company, Crown Investments Corporation
- annual disclosure through Crown and Central Agencies, a public legislative committee of government, of all payments of over $50,000 to employees and suppliers, and of all grants, donations and sponsorships of over $5,000
- appearances before public committees of the legislature, including Crown and Central Agencies, by senior executive to answer questions relating to the business of the Corporation in preceding years
- compliance with public requests for information, balancing the interests of the Freedom of Information and Protection of Privacy Act.

SaskEnergy also works cooperatively with CIC, the office of the Minister Responsible for SaskEnergy and Executive Council Communications to generate understanding and support for corporate initiatives that affect stakeholders. These communications tools include briefing notes, face-to-face meetings and/or other information packages to ensure elected officials are able to represent the Corporation in public and through the media by speaking knowledgeably on issues regarding the business operations of SaskEnergy. The Corporation is also expected to respond expediently to correspondence and case work submitted by the office of the Minister Responsible for SaskEnergy.

Project-based Communications

SaskEnergy's distribution, transmission and storage projects can have impacts on the communities in which they are occurring. In addition to fully complying with all legal and regulatory considerations, SaskEnergy will typically hold consultations with affected stakeholders in areas where projects are of greater scope or longer duration. Such communications initiatives include public open houses and meetings with local municipal councils and First Nations representatives. These initiatives allow company officials to explain the environmental impacts of proposed activities, including proposed mitigation plans. They also provide opportunities to enhance general understanding of the project's economic benefits and of natural gas as a heating source. Because Saskatchewan has approximately 75 First Nations Bands and 11 Métis Regions, a dedicated Aboriginal Relations group exists to better foster consultation, dialogue and relations.

Regulatory Communications

SaskEnergy is required to file any applications for delivery and commodity rate changes with the Saskatchewan Rate Review Panel (SRRP), an advisory Panel that provides formal recommendations to the Provincial Cabinet. The applications are available to the public. Typically, the SRRP will ask for additional information to assist in its review, and a public interaction component is provided through public meetings. SaskEnergy filed commodity applications in the spring and fall of 2009, and a delivery application in the fall of 2009. In each

case, after review, the SaskEnergy application was recommended to, and approved by Cabinet. SaskEnergy has historically delivered very competitive rates, with the lowest commodity rates in Canada for seven of the last 11 years, and continued to have the lowest residential delivery rate in Canada in 2009.

TransGas' proposed rate changes are discussed through the TransGas Customer Dialogue, a proxy with representatives from the producer, industrial end-user and gas marketer communities. After rate changes are discussed through Dialogue, they are provided to the Provincial Cabinet for approval. One change to TransGas rates was discussed at Dialogue and accepted by the Provincial Cabinet for implementation on February 1, 2009.

Employee Communications

SaskEnergy regularly communicates with its workforce of over 1,100 employees to ensure prompt and accurate delivery of corporate information.

The primary method of communication is the InfoFlash (a corporate memo containing relevant, business-related information) that is delivered via e-mail to all employees within the company.

New in 2009, SaskEnergy launched an improved corporate Intranet site named Innergy. This communication medium allows employees to access information related to the Corporation, stay informed on upcoming events and initiatives, and link to internal sites for specific departmental information. To ensure the accuracy and quality of information provided, Innergy offers a two-way communication medium for employees to submit feedback regarding information on the website.

SaskEnergy produces a bi annual newsletter called People with Energy. Issues are delivered to all employees, as well as superannuates upon request. The People with Energy newsletter features articles related to corporate and employee initiatives that are taking place throughout the Province. The Corporation also produces bi annual corporate videos that serve as informative, educational tools to keep employees up-to-date on major projects that are taking place within the Corporation.

SaskEnergy also maintains an "Open Line to the President", a forum whereby employees are able to submit questions or comments anonymously to which the President responds directly. The questions and responses are posted for all employees to view.

In addition to the mediums mentioned above, SaskEnergy supports the use of meetings, presentations and face-to-face communication to deliver important messages to employees, such as safety messages, business and strategic plan information and employee survey results.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Corporation consistently prepares its financial statements in accordance with Canadian generally accepted accounting principles (GAAP). The Corporation's accounting policies are described in Note 2 of the accompanying Consolidated Financial Statements. The preparation of these statements requires the use of estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Those estimates and judgments are prepared using assumptions that management believes to be most probable given current circumstances. Consequently, actual results may vary from those estimates. SaskEnergy's critical accounting policies and estimates have been summarized below.

Amortization of Property, Plant and Equipment

Property, plant and equipment constitute a significant component of the Corporation's assets. As a result, changes in assumptions related to the calculation of amortization expense may have a significant impact on SaskEnergy's net income.

The Corporation's property, plant and equipment are amortized on a straight-line basis over the estimated service life of the asset. SaskEnergy assesses the estimated service life of its assets on an ongoing basis. Any resulting changes in the estimated service life of an asset are treated as prospective adjustments to amortization.

Financial Instruments

The Corporation uses various natural gas derivative instruments, mainly physical contracts, swaps and options, to manage the risk of natural gas price fluctuations. Prior to settlement, SaskEnergy records all natural gas derivative instruments at fair value.

The fair values of physical contracts and swaps are determined using quoted market prices as at year end. The fair values of options are determined using the Garman-Kohlhagen option pricing model, which requires the use of different assumptions. Those assumptions include quoted market prices as at year end, interest rates and volatility estimates for forward natural gas prices, which are each based on external market sources. In valuing each derivative instrument, assumptions are also made regarding the credit quality of counterparties. Markets for the Corporation's derivative contracts remained active throughout 2009. As a result, external market sources, along with an assessment of credit and liquidity risk, continued to be used in determining the fair value of those contracts.

Up to the date of settlement, changes in the fair value of natural gas derivative instruments are recorded as unrealized gains or losses in the statement of income during the period of change. Given fluctuations in natural gas prices, fair value adjustments vary throughout the length of the contract until final settlement occurs. As a result, the fair value amounts recorded at year end will be subject to change as market conditions vary.

Revenue Recognition

Commodity sales and delivery revenues are recognized when natural gas is delivered to customers. Because it is impractical to read all customer meters on December 31 of each year, SaskEnergy recognizes an estimate of the volume of natural gas delivered but not billed. The volume of unbilled sales is determined by comparing the estimated total volume of natural gas that entered the distribution system to the total volume of natural gas billed to customers. Regular meter readings throughout the year are used to reconcile volumes purchased with volumes billed. At December 31, 2009, the unbilled revenue related to commodity sales and delivery revenue was $54 million.

CHANGE IN ACCOUNTING POLICY

Effective January 1, 2009, SaskEnergy adopted the following Canadian Institute of Chartered Accountants (CICA) Handbook section in accordance with the transitional provisions:

Handbook	Requirements	Impact
Section 3064 – Goodwill and Intangible Assets	Effective January 1, 2009, new recommendations for the recognition, measurement, presentation and disclosure of goodwill and intangible assets.	Computer software was reclassified from property, plant and equipment to intangible assets, with no impact on the Corporation's operating results.

For additional information related to this change in accounting policy, refer to Note 3 of the Consolidated Financial Statements.

FUTURE CHANGES IN ACCOUNTING POLICIES

The CICA has adopted the following new accounting requirements, which SaskEnergy will be adopting in future periods in accordance with the transitional provisions of each section:

Handbook	Requirements	Impact
Section 1582 – Business Combinations	Effective January 1, 2011, new recommendations for the accounting and disclosure of business combinations.	No adjustments required for business combinations occurring before January 1, 2011, but would impact any future business combinations.
Section 1601 – Consolidated Financial Statements and Section 1602 – Non-Controlling Interests	Effective January 1, 2011, new recommendations for the preparation of consolidated financial statements and accounting for the non-controlling interest in a subsidiary.	Impact is not yet determined, but is not expected to be material as SaskEnergy's subsidiaries do not have non-controlling interests.

International Financial Reporting Standards

Effective January 1, 2011, publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS). The Public Sector Accounting Board (PSAB) has approved an amendment to the scope of public sector accounting standards. The amendment confirms that Government Business Enterprises (GBE), including SaskEnergy, will be required to follow IFRS for periods beginning January 1, 2011. This will allow for comparison of similar entities in the public and private sector.

SaskEnergy has commenced its IFRS conversion project, and an external advisor has been engaged to assist with project development and implementation. The advisor also assisted in performing a detailed review of major differences between current GAAP and IFRS. SaskEnergy completed a detailed assessment of those international reporting standards with respect to the highest potential for impacts. Board members have been briefed on IFRS, have participated in high level training and have reviewed and approved project plans. Management and staff from SaskEnergy have also participated in IFRS training seminars.

At this time, the impact that IFRS will have on SaskEnergy's future financial position and operational results is not reasonably determinable. However, based on analysis to date, the most significant areas of difference are related to the accounting procedures for property, plant and equipment and financial statement disclosure. In conjunction with evaluating the accounting standards, a review of the information technology and data systems' capability to provide the information required by IFRS has been performed.

For additional information related to these future changes in accounting policies, refer to Note 2 of the Consolidated Financial Statements.

CONTROLS AND PROCEDURES

Management's Report on Internal Controls over Financial Reporting

Management of SaskEnergy Incorporated is responsible for establishing and maintaining adequate internal control over financial reporting defined by the Canadian Securities Administrators. The Company's internal control over financial reporting is a process designed under the supervision and with the participation of executive and financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with GAAP. The Company's internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets of the Company
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on financial statements.

Due to inherent limitations, the Company's internal control over financial reporting may not prevent or detect all misstatements. Additionally, projected effectiveness evaluations of future periods are subject to the risk that controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with the Company's policies and procedures. Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the Company maintained effective internal control over financial reporting as of December 31, 2009.

Management's Responsibility for Financial Statements

Financial Reporting

The accompanying consolidated financial statements are the responsibility of the management of SaskEnergy. They have been prepared in accordance with Canadian generally accepted accounting principles, using management's best estimates and judgments where appropriate. Management is responsible for the reliability and integrity of the consolidated financial statements, the notes to the financial statements and all other financial information contained in this annual report.

The Corporation's Board of Directors (the Board) is responsible for ensuring that management fulfills its responsibilities for financial reporting and control. The Board is assisted in exercising its responsibility through its Audit and Finance Committee (the Committee). The Committee is composed of directors who are not employees of the Corporation. The Committee reviews the annual report and meets regularly with management, internal audit and external auditors to discuss internal controls, accounting, auditing and financial matters. The Committee recommends the appointment of the external auditors. The Committee reports its findings to the Board for its consideration in approving the consolidated financial statements and subsidiary financial statements.

Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining a system of internal controls, policies and procedures designed to provide reasonable assurance that assets are safeguarded and that accounting systems provide timely, accurate and reliable financial statements. The internal control system includes an internal audit function and an established code of conduct.

Management assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2009, based on the framework established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the company maintained effective control over financial reporting and that there were no material weaknesses in internal controls over financial reporting as of December 31, 2009.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants, as appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan. The Auditors' Report expresses their opinions on the fairness of the financial statements prepared by management.

Doug Kelln
President and Chief Executive Officer

Dennis Terry
Vice-President, Finance and Chief Financial Officer

February 25, 2010

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2009, as well as the consolidated statements of income and retained earnings, comprehensive income, accumulated other comprehensive loss and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. These standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP.

Regina, Saskatchewan

February 25, 2010

Consolidated Statement of Financial Position As at December 31 (millions of dollars)

	Notes	2009	2008
Assets			
Current assets			
Cash		$ –	$ 4
Accounts receivable	5	113	160
Natural gas in storage held for resale	6	258	199
Inventories of supplies	7	9	16
Debt retirement funds	8	9	–
Fair value of derivative instruments	9	52	46
Assets of discontinued operations	10	–	62
		441	487
Intangible assets	11	15	18
Property, plant and equipment	12	1,004	945
Natural gas in storage held for resale and operations	6	34	35
Debt retirement funds	8	48	48
Investments	13	30	28
		$ 1,572	$ 1,561
Liabilities and Province's Equity			
Current liabilities			
Bank indebtedness		$ 1	$ –
Short-term debt	14	108	164
Accounts payable	15	126	132
Dividends payable		21	6
Current portion of long-term debt	14	80	39
Fair value of derivative instruments	9	38	61
Liabilities of discontinued operations	10	–	6
		374	408
Asset retirement obligations	16	8	8
Long-term debt	14	715	712
		1,097	1,128
Province of Saskatchewan's equity			
Retained earnings		406	364
Accumulated other comprehensive loss	17	(3)	(3)
		403	361
Equity advances	18	72	72
		475	433
		$ 1,572	$ 1,561
Commitments and contingencies	19		

(See accompanying notes)

On behalf of the Board:

Director

Director

Consolidated Statement of Income and Retained Earnings Years ended December 31 (millions of dollars)

	Notes	2009	2008
Revenue			
Commodity sales		$ 451	$ 432
Gas marketing sales		446	576
Delivery		184	175
Transportation and storage		80	77
Revenue collected for municipalities	20	26	25
Other	21	10	16
		1,197	1,301
Expenses			
Commodity cost of gas sold		418	470
Gas marketing cost of gas sold		417	539
Operating and maintenance		148	138
Interest	22	43	41
Amortization	23	57	55
Payment to municipalities	20	26	25
Saskatchewan taxes	24	8	8
		1,117	1,276
Net income from continuing operations		80	25
Gain on sale of investment	10	8	–
Net income from discontinued operations	10	5	5
Net income		93	30
Retained earnings, beginning of year		364	379
Change in accounting policy	3	–	(2)
Dividends		(51)	(43)
Retained earnings, end of year		$ 406	$ 364

(See accompanying notes)

Consolidated Statement of Comprehensive Income Years ended December 31 (millions of dollars)

	2009	2008
Net income	$ 93	$ 30
Other comprehensive income		
Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations	–	2
Comprehensive income	$ 93	$ 32

Consolidated Statement of Accumulated Other Comprehensive Loss Years ended December 31 (millions of dollars)

	2009	2008
Accumulated other comprehensive loss, beginning of year	$ (3)	$ (5)
Other comprehensive income	–	2
Accumulated other comprehensive loss, end of year	$ (3)	$ (3)

(See accompanying notes)

Consolidated Statement of Cash Flows Years ended December 31 (millions of dollars)

	Notes	2009	2008
Operating Activities			
Net income		$ 93	$ 30
Add (deduct) items not requiring an outlay of cash			
Amortization	23	57	55
Change in fair value of derivative instruments	9	(29)	23
Gain on sale of investment	10	(8)	–
Debt retirement funds earnings		(3)	(2)
Equity earnings		(3)	(2)
Other		–	5
		107	109
Net change in non-cash working capital related to operations	25	(25)	(83)
Decrease in natural gas in storage - non-current		1	1
Cash provided by operating activities from continuing operations		83	27
Cash used in discontinued operations	10	(7)	(16)
Cash provided by operating activities		76	11
Investing Activities			
Net additions to property, plant and equipment		(130)	(114)
Capital contributions and deposits received	12	31	37
Proceeds on sale of investment	10	73	–
Additions to investments		–	(5)
Cash used in investing activities		(26)	(82)
Financing Activities			
Increase in bank indebtedness		1	–
Decrease in short-term debt		(55)	75
Proceeds from long-term debt		83	120
Repayments of long-term debt		(39)	(75)
Debt retirement fund installments		(8)	(6)
Debt retirement fund redemptions		–	3
Dividends paid		(36)	(44)
Cash (used in) provided by financing activities		(54)	73
(Decrease) increase in cash during the year		(4)	2
Cash position, beginning of year		4	2
Cash position, end of year		$ –	$ 4

(See accompanying notes)

1. Status of the Corporation

SaskEnergy Incorporated (SaskEnergy or the Corporation) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

The Corporation owns and operates natural gas-related businesses located both within and outside Saskatchewan.

2. Summary of Significant Accounting Policies

The consolidated financial statements include the accounts of SaskEnergy and its direct and indirect wholly owned subsidiaries, Bayhurst Gas Limited, Bayhurst Energy Services Corporation (and its ten wholly owned subsidiaries), Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., SaskEnergy Nova Scotia Holdings Ltd. (note 10), Swan Valley Gas Corporation, and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership, the Corporation's 50.1 per cent proportionate share of Heritage Gas Limited (note 10), accounted for as a joint venture, and the 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture.

As outlined in note 10, SaskEnergy Nova Scotia Holdings Ltd. sold its interest in Heritage Gas Limited effective October 1, 2009 and wound up all operations by December 31, 2009.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management periodically evaluates the estimates and assumptions used based on past experience and other factors considered reasonable under the circumstances. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods. Due to market volatility, changes in future conditions in the near term could result in a material change. Significant areas requiring the use of estimates and assumptions are described in the following summary of significant accounting policies. The impact of rate regulation on the application of GAAP is described in note 28. The following accounting policies are considered to be significant:

a. Natural gas in storage

Natural gas in storage is stated at the lower of cost and net realizable value. Cost is determined on a weighted average cost basis. Net realizable value is determined using near month and forward natural gas market prices as appropriate.

b. Inventories of supplies

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost and net realizable value. Replacement cost is used as management's best estimate of the net realizable value.

c. Intangible assets

Intangible assets includes computer software that was previously reported as property, plant and equipment (note 3). Intangible assets are stated at cost and include all direct costs related to the development of the assets. Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rate is 8.3 to 20.0 per cent.

2. Summary of Significant Accounting Policies (continued)

d. Property, plant and equipment

Property, plant and equipment is stated at cost and includes all direct costs related to the development of the assets and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in income for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (per cent)

Transmission and storage	2.5 to 2.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Computer hardware	20.0 to 33.3
Vehicles, equipment and other	2.5 to 16.4

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

e. Investments

The Corporation accounts for its investments in Gas Sur S.A. and IGASAMEX USA Ltd. using the equity method.

f. Asset retirement obligations

Where a legal obligation exists, the Corporation recognizes the fair value of its asset retirement obligations relating to the future decommissioning of certain natural gas facilities as a liability in the period in which the obligation is incurred provided a reasonable estimate of fair value can be determined. The liability is increased annually for the passage of time through accretion expense. The associated asset retirement cost is added to the carrying amount of the related asset and amortized over the estimated useful life of the related asset.

Due to the long-term nature of the assumptions made in the cost estimates, there could be a material adjustment to income in future reporting periods. Therefore, revisions will be made periodically to reflect more accurate estimates.

g. Financial instruments

SaskEnergy classifies its financial instruments into one of the following categories: 1) held-for-trading, 2) held-to-maturity, 3) loans and receivables, 4) available-for-sale, and 5) other liabilities.

All financial instruments are measured at fair value upon initial recognition. The fair value of a financial instrument is the amount at which the financial instrument could be exchanged in an arm's length transaction between knowledgeable and willing parties under no compulsion to act.

Financial assets and liabilities classified as held-for-trading are subsequently measured at fair value with changes in fair value recognized in net income. Financial assets classified as available-for-sale are subsequently measured at fair value with changes in fair value recognized in other comprehensive income until the financial asset is sold or other than temporarily impaired at which time the cumulative gain or loss is recognized in net income. Financial assets classified as held-to-maturity and loans and receivables as well as financial liabilities classified as other liabilities are subsequently amortized using the effective interest

2. Summary of Significant Accounting Policies (continued)

method. All derivatives are recognized as an asset or liability as of the financial statement date.

Transaction costs related to held-for-trading financial assets and liabilities are expensed as incurred. For all other financial instruments, transaction costs are included in the initial carrying amount.

Cash is classified as held-for-trading. Accounts receivable are classified as loans and receivables. Carrying value approximates fair value due to the short-term nature of these instruments. The debt retirement funds are classified as held-for-trading assets and recorded at fair value. The change in the fair value of the debt retirement funds is recognized in interest expense.

Bank indebtedness is classified as held-for-trading. Short-term debt, accounts payable, and dividends payable are classified as other liabilities. Carrying value approximates fair value due to the short-term nature of these instruments. Long-term debt is classified as other liabilities and recorded at amortized cost. The related debt premium, discount and issue costs are included in the carrying value of the long-term debt and are recognized in interest expense using the effective interest rate method.

The Corporation uses hedge accounting for interest rate swaps used to hedge long-term debt. The effective portion of changes in the fair value is recognized in other comprehensive income while any ineffective portion of changes in the fair value is recognized immediately in interest expense. Gains and losses deferred in accumulated other comprehensive loss are reclassified in interest expense in the same period as the hedged item is settled. The Corporation uses hedge accounting for foreign currency forward contracts used to hedge capital expenditures denominated in a foreign currency. Gains or losses are recognized in other comprehensive income and reclassified to amortization expense over the life of the related capital asset. Interest rate swaps and foreign currency forward contracts may be designated as cash flow hedges.

Derivative financial instruments not designated as a hedge are classified as held-for-trading and are recorded at fair value in the statement of financial position in current assets or current liabilities as applicable. The change in the fair value of these derivatives is recorded in net income and classified within the revenue or expense category to which they relate. The revenue and expense categories impacted are described in note 9c.

Embedded derivatives are recorded at fair value on the statement of financial position.

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in accumulated other comprehensive loss in the Province of Saskatchewan's equity.

The Corporation classifies the fair value of its financial instruments and derivatives according to the following hierarchy based on the amount of observable inputs used to value the instruments.

i. Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis. The Corporation does not use Level 1 inputs for any of its recurring fair value measurements.

ii. Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reported date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value, volatility factors and broker quotations, which can be substantially observed or corroborated in the marketplace. Instruments in this category include nonexchange traded derivatives such as

2. Summary of Significant Accounting Policies (continued)

over-the-counter physical forwards and options, including those which have prices similar to quoted market prices.

iii. Level 3 – Valuations in this level are those with inputs which are less observable, unavailable or where the observable data does not support the majority of the instrument's fair value. The Corporation does not use Level 3 inputs for any of its recurring fair value measurements.

h. Revenue recognition

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed, is included in revenue.

Revenue from natural gas marketing is recorded upon completion of the delivery of natural gas to the customer. The Corporation acts as a principal in these natural gas marketing transactions, taking title to the natural gas purchased for resale, and assuming the risks and rewards of ownership. Changes in the fair value of outstanding gas marketing sales contracts are recorded as gains or losses in the period of change.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers and the ultimate collection is reasonably assured. An estimate of transportation, storage and related services rendered, but not billed, is included in revenue.

Royalty revenue, included in other revenue, is recognized when natural gas is sold from wells subject to royalty agreements and the ultimate collection is reasonably assured.

Natural gas and liquid sales, included in other revenue, is recognized when natural gas and natural gas liquids are delivered to customers and ultimate collection is reasonably assured.

i. Cost of gas sold

The cost of gas sold includes the cost of purchasing natural gas in the open market, derivative financial instrument settlements, fair value adjustments on outstanding derivative financial and non-financial instruments, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

j. Gas marketing

The Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. The gain or loss on these transactions is the difference between the sales revenue recognized in the period and the average cost of natural gas required to fulfill those sales.

Changes in the fair value of the contracts due to a change in market prices up to the date of settlement are recorded as gains or losses in gas marketing sales or gas marketing cost of gas sold in the period of change.

k. Employees' future benefits

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both multi-employer plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retiring allowance plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates.

l. Future accounting policy changes

The Canadian Institute of Chartered Accountants (CICA) has issued several new Handbook Sections: Section 1582 – Business Combinations, Section 1601 – Consolidated Financial Statements

2. Summary of Significant Accounting Policies (continued)

and Section 1602 – Non-Controlling Interests for fiscal years beginning on or after January 1, 2011. These sections replace existing Handbook Sections 1581 and 1600 and establish standards for the accounting for business combinations, preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary. The Corporation is evaluating the potential impacts of these accounting recommendations and does not anticipate a significant impact on the Corporation's financial statements.

The CICA has announced that publicly accountable Canadian entities will be required to prepare financial information in accordance with International Financial Reporting Standards (IFRS) effective January 1, 2011. Although IFRS are a principle-based set of standards, similar to current GAAP, there are areas where the accounting treatment differs from Canadian GAAP. The Corporation is evaluating the potential impacts of IFRS on the Corporation's financial statements.

3. Changes in Accounting Policies

Effective January 1, 2009, SaskEnergy adopted the CICA Handbook Section 3064 – Goodwill and Intangible Assets. This section supersedes Section 3062 – Goodwill and Other Intangible Assets and Section 3450 – Research and Development Costs. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The standard requires retrospective application with restatement of prior year comparative results. Intangible assets are to be presented and disclosed separately in the financial statements and in the notes to the financial statements.

Upon the adoption of the new standard, SaskEnergy is presenting and disclosing intangible assets separately in the financial statements and in the notes to the financial statements. The impact of applying this change in accounting policy effective January 1, 2009 was as follows:

	Dec. 31 2008 (millions)
Intangible assets (net)	$ 18
Property, plant and equipment (net)	(18)
Total assets	$ –
Total liabilities and Province's equity	$ –

The CICA implemented revisions to Handbook Section 3862 "Financial Instruments – Disclosures" for fiscal years ending after September 30, 2009. These revisions are intended to align the disclosure requirements for financial instruments to the maximum extent possible with the disclosure required under IFRS. These revisions require additional disclosure based on a three level hierarchy that reflects the significance of inputs used in measuring fair value. The new required disclosure is provided in Notes 2 and 9.

4. Capital Disclosure

The Corporation's objective when managing its capital is to maintain financial stability through the effective management of liquidity and capital structure. Ensuring financial stability is critical to providing safe reliable service to Saskatchewan residents, businesses and industries.

SaskEnergy finances its capital requirements through internally generated funds and injections of capital from the Province of Saskatchewan, typically in the form of debt. Under *The SaskEnergy Act*, the Corporation may borrow up to $1.3 billion of debt upon approval of the Lieutenant Governor in Council. As at December 31, 2009, SaskEnergy had $904 million of debt outstanding, authority to borrow an additional $292 million of temporary loans, and a $35 million uncommitted line of credit with Toronto-Dominion Bank.

The Corporation borrows all of its capital, with the exception of occasional overnight loans from the Toronto-Dominion Bank, from the Province of Saskatchewan. Given the Province of Saskatchewan's strong credit rating, the Corporation was able to acquire all of its funding requirements

4. Capital Disclosure (continued)

during 2009. SaskEnergy's borrowing requirement constitutes a minor portion of the Government of Saskatchewan's total borrowings.

The Corporation monitors capital on the basis of the debt ratio. The current long-term per cent debt ratio target is 65 per cent, which is consistent with the prior year and comparable to publicly traded natural gas pipeline and distribution utilities. SaskEnergy adjusts its dividend payments to CIC to maintain its debt ratio at industry comparable levels. The purpose of this strategy is to ensure that SaskEnergy's debt is considered self supporting and does not adversely affect the Province's access to capital markets. The Corporation's objectives, policies and processes for managing its capital are consistent with the prior year.

The per cent debt ratio is calculated as net debt divided by end of year capitalization as follows:

	2009	2008
	(millions)	
Gross long-term debt	**$ 795**	$ 751
Short-term debt	**108**	164
Bank indebtedness	**1**	–
Debt retirement funds	**(57)**	(48)
Cash	**–**	(4)
Total net debt	**847**	863
Equity advances	**72**	72
Retained earnings	**406**	364
Total capital	**$ 1,325**	$ 1,299
Debt ratio	**63.9%**	66.4%

SaskEnergy complied with all externally imposed requirements on its capital for the year ended December 31, 2009.

5. Accounts Receivable

	2009	2008
	(millions)	
Unbilled revenue	**$ 71**	$ 114
Trade accounts	**31**	41
Other receivables	**11**	5
	$ 113	$ 160

6. Natural Gas in Storage Held for Resale and Operations

During the year, $695 million of natural gas in storage held for resale (2008 – $959 million) was recognized as cost of gas sold. There was no write-down of natural gas in storage and no reversal of prior period write-downs during 2009.

7. Inventories of Supplies

During the year, $25 million of inventories of supplies (2008 – $18 million) were consumed. There was no write-down of inventory of supplies and no reversal of any prior period write-down during 2009.

8. Debt Retirement Funds

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a debt retirement fund. These debt retirement funds are administered by Saskatchewan's Ministry of Finance. The investments held in these debt retirement funds are primarily Federal and Provincial Government debt instruments. The yield on these investments was 5.4 per cent for 2009 (2008 – 5.8 per cent). Debt retirement funds are held-for-trading assets and are recorded at fair value on the consolidated statement of financial position.

Amounts required to be invested in the debt retirement fund in each of the next five years are as follows: (millions)

2010	2011	2012	2013	2014
$ 8	$ 7	$ 7	$ 7	$ 6

9. Financial Instruments and Risk Management

a. Financial instruments

The fair value of the Corporation's financial instruments is listed below:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(millions)			
Other liabilities				
Long-term debt	**$ 795**	**$ 889**	$ 751	$ 851
Held-for-trading				
Debt retirement funds	**57**	**57**	48	48

The fair value of the above instruments was based on the following:

i. Long-term debt – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. Debt retirement funds – The fair value measurements are calculated using Level 2 inputs. The market value of the investments held in the debt retirement fund is determined by Saskatchewan's Ministry of Finance using information provided by investment dealers. To the extent possible, valuations reflect indicative secondary pricing for these securities. In all other circumstances, valuations are determined with reference to similar actively traded instruments.

The fair value of other financial instruments, including cash, accounts receivable, bank indebtedness, short-term debt, accounts payable and dividends payable approximate their carrying values due to the short-term nature of the instruments.

9. Financial Instruments and Risk Management (continued)

b. Natural gas derivative instruments

The fair value of natural gas derivative instruments held-for-trading, with the exception of natural gas price options, is calculated daily and is based on quoted market prices. The Corporation obtains information from sources such as the New York Mercantile Exchange and the Natural Gas Exchange, independent price publications and over-the-counter broker quotes. All of the Corporation's recurring fair value measurements are calculated using Level 2 inputs. The fair value of natural gas price options is determined using the Garman-Kohlhagen model which requires the use of various assumptions, including quoted market prices, interest rates and volatility estimates for forward natural gas prices, which are each based on external market sources. For physical natural gas contracts notional values are an approximation of future net cash flows based on contract price multiplied by contract quantity. For other derivative instruments, the notional value is the difference between the contract price and the market price. SaskEnergy has sufficient borrowing capacity to fund these contractual obligations. Where contract prices are referenced to an index price that has not yet been fixed, the market price at December 31, 2009 has been used to estimate the contract price. At December 31, 2009, all derivative assets and liabilities held-for-trading are recorded on the consolidated statement of financial position at fair value.

As at December 31, 2009, natural gas derivative instruments held-for-trading had the following fair values, notional values and maturities:

	2010	2011	2012	2013	2014	Total
			(millions)			
Physical natural gas contracts						
Fair Value	$ 6	$ 1	$ 1	$ –	$ –	$ 8
Notional value	(164)	14	5	2	2	(141)
Natural gas price swaps						
Fair Value	(6)	5	4	3	–	6
Notional value	(5)	5	4	3	–	7
Total						
Fair Value	$ –	$ 6	$ 5	$ 3	$ –	$ 14
Notional value	$ (169)	$ 19	$ 9	$ 5	$ 2	$ (134)

Fair value – increase (decrease)
Notional value – estimated net cash inflow (outflow)

9. Financial Instruments and Risk Management (continued)

c. Changes in fair value

The fair value of derivative instruments is presented on the consolidated statement of financial position as follows:

	2009	2008
	(millions)	
Fair value of derivative instrument assets	**$ 52**	$ 46
Fair value of derivative instrument liabilities	**(38)**	(61)
	$ 14	$ (15)

The change in fair value of financial and derivative instruments is recorded in net income within the relevant revenue or expense category. For the year ended December 31 the increase (decrease) in net income of these unrealized gains and losses was as follows:

	2009	2008
	(millions)	
Derivative instruments		
Gas marketing sales	**$ 7**	$ 31
Commodity cost of gas sold	**21**	(47)
Gas marketing cost of gas sold	**3**	(9)
	31	(25)
Financial instruments		
Gas marketing cost of gas sold	**(1)**	1
Interest expense	**(1)**	(1)
Increase (decrease) in net income	**$ 29**	$ (25)

d. Risk management

The Corporation uses various derivative financial instruments to manage the risks associated with its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific risk management strategies establish the guidelines within which such derivative financial instruments may be used. The objectives, policies and processes for managing risk were consistent with the prior year.

i. Natural gas price risk

The Corporation may manage the risk associated with the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, natural gas derivative instruments may be used to fix the settlement amount. The types of natural gas derivative instruments SaskEnergy may use for price risk management include natural gas price swaps, options, swaptions and futures contracts.

Based on the Corporation's December 31, 2009 closing positions, an increase of $1.00 per Gigajoule in natural gas prices would have increased net income, through an increase in the fair value of natural gas contracts, by $1 million. Conversely, a decrease of $1.00 per Gigajoule would have decreased net income, through a decrease in the fair value of natural gas contracts, by $1 million.

ii. Foreign currency exchange and interest rate risk

The Corporation may use derivative financial instruments to manage the interest rate risk on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of managing interest rate risk, the Corporation may use forward rate agreements, options and interest rate swaps to achieve an annual average interest rate target. During the year ended December 31, 2009 the Corporation did not enter into or settle any such instruments.

For the purpose of managing the exchange rate risk on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options. During the year ended December 31, 2009 the impact of these instruments on net income was $nil (2008 – $nil).

At year end, the Corporation had $108 million of short-term debt which is refinanced quarterly. In addition, $80 million of long-term debt will mature in 2010 at which time it will be refinanced.

9. Financial Instruments and Risk Management (continued)

Based on the short-term debt balance as at December 31, 2009 and the long-term debt maturing in 2009, a one per cent change in interest rates would increase or decrease the annual interest expense by approximately $2 million.

iii. Liquidity risk

Liquidity risk is the risk that the Corporation is unable to meet its financial obligations as they become due. For financial obligations, the Corporation has credit facilities available to refinance maturities in excess of anticipated operating cash flows. The following summarizes the contractual maturities of the Corporation's financial obligations as at December 31, 2009:

	6 months or less	7 – 12 months	1 – 2 years	3 – 51 years	More than 5 years
			(millions)		
Bank indebtedness	$ 1	$ –	$ –	$ –	$ –
Short-term debt	108	–	–	–	–
Accounts payable	126	–	–	–	–
Dividends payable	21	–	–	–	–
Derivative instruments	112	57	–	–	–
Long-term debt	21	101	38	256	902
Debt retirement fund installments	4	4	7	20	59
	$ 393	$ 162	$ 45	$ 276	$ 961

The long-term debt obligations include principal and interest payments.

iv. Credit risk

The Corporation is exposed to credit risk through cash, accounts receivable, debt retirement funds and derivative instrument assets. Credit risk related to cash and debt retirement funds is minimized by dealing with institutions that have strong credit ratings and holding highly-rated financial securities.

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties and may require letters of credit and other forms of security. At December 31, 2009 the maximum credit exposure to a single counterparty was $14 million (2008 – $14 million).

Derivative credit risk arises from the possibility that a counterparty to a contract fails to perform according to the terms and conditions of that contract. Derivative credit risk is minimized by dealing with creditworthy counterparties in accordance with established credit approval policies.

9. Financial Instruments and Risk Management (continued)

The carrying amount of financial and derivative assets represents the maximum credit exposure as follows:

	2009	2008
	(millions)	
Cash	$ –	$ 4
Accounts receivable	113	160
Debt retirement funds	57	48
Fair value of derivative instrument assets	52	46
Maximum credit exposure	$ 222	$ 258

The following reflects an aging summary of the Corporation's accounts receivable:

	2009	2008
	(millions)	
Current	$ 109	$ 155
30 – 59 days	3	3
60 – 89 days	1	1
Greater than 90 days	1	2
	114	161
Allowance for doubtful accounts	(1)	(1)
	$ 113	$ 160

Provisions for credit losses are maintained and regularly reviewed by the Corporation. Credit losses are estimated based on an aging of customer accounts: Amounts are written off once reasonable collection efforts have been exhausted. Details of the allowance are as follows:

	2009	2008
	(millions)	
Allowance for doubtful accounts, beginning of year	$ 1	$ 1
Provision	2	1
Recoveries	2	2
Write-offs	(4)	(3)
Allowance for doubtful accounts, end of year	$ 1	$ 1

10. Net Income from Discontinued Operations

SaskEnergy Nova Scotia Holdings Ltd. (Nova Scotia Holdings), a wholly owned subsidiary of SaskEnergy, sold its 50.1 per cent interest in Heritage Gas Limited (Heritage Gas) effective October 1, 2009 to AltaGas Utility Holdings (Nova Scotia) Inc. of Calgary, Alberta. The transaction which closed on November 18, 2009, had a cash purchase price of $73 million with a resulting gain on sale of $8 million.

Due to the sale of Heritage Gas and the subsequent winding up of Nova Scotia Holdings operations by December 31, the Corporation has removed the results of Nova Scotia Holdings and Heritage Gas from its ongoing financial position, operations and cash flows as follows:

Consolidated statement of financial position

	2009	2008
	(millions)	
Current assets	$ –	$ 4
Long-term assets	–	58
Current liabilities	–	(4)
Long-term liabilities	–	(2)

Consolidated statement of income

	2009	2008
	(millions)	
Revenue	$ 13	$ 16
Expenses	(8)	(11)
Net income	$ 5	$ 5

Consolidated statement of cash flows

	2009	2008
	(millions)	
Cash used in operating activities	$ (3)	$ (7)
Cash used in investing activities	(4)	(9)
	$ (7)	$ (16)

11. Intangible Assets

	2009			2008		
	(millions)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Computer software	$ 49	$ 36	$ 13	$ 49	$ 31	$ 18
Work in progress	2	–	2	–	–	–
	$ 51	$ 36	$ 15	$ 49	$ 31	$ 18

Intangible assets acquired during the year were $1 million (2008 – $3 million).
Intangible assets developed during the year were $1 million (2008 – $5 million).

12. Property, Plant and Equipment

	2009			2008		
	(millions)					
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Distribution	$ 755	$ 263	$ 492	$ 705	$ 244	$ 461
Transmission and storage	752	263	489	703	245	458
Gathering, treatment and compression	186	84	102	172	77	95
Vehicles, equipment and other	104	49	55	104	49	55
Computer hardware	26	16	10	32	24	8
Construction in progress	50	–	50	49	–	49
	$ 1,873	$ 675	1,198	$ 1,765	$ 639	1,126
Less:						
Unamortized customer capital contributions			194			181
			$ 1,004			$ 945

12. Property, Plant and Equipment (continued)

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

	2009	2008
	(millions)	
Customer capital contributions, beginning of year	$ 181	$ 148
Contributions received	17	37
Amortization of contributions	(4)	(4)
Customer capital contributions, end of year	$ 194	$ 181

13. Investments

Investments are as follows:

	2009		2008	
	Amount (millions)	Ownership (per cent)	Amount (millions)	Ownership (per cent)
Equity investments				
Gas Sur S.A.				
Initial investment	$ 14	30.0	$ 14	30.0
Accumulated equity earnings	4		4	
Foreign currency translation adjustment	(1)		(3)	
	17		15	
IGASAMEX USA Ltd.				
Initial investment	11	40.1	11	40.1
Accumulated equity earnings	5		3	
Foreign currency translation adjustment	(3)		(1)	
	13		13	
	$ 30		$ 28	

Equity investments:

a. Gas Sur S.A.

The Corporation's 30.0 per cent share of Gas Sur S.A.'s 2009 net income was $1 million (2008 – $1 million) which was included in other revenue. The Corporation's foreign currency translation adjustment for 2009 resulted in a $2 million increase in the balance of the investment in Gas Sur S.A. (2008 – $1 million reduction). The initial cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5 million (2008 – $5 million).

b. IGASAMEX USA Ltd.

The Corporation's 40.1 per cent share of IGASAMEX USA Ltd.'s 2009 net income was $2 million (2008 – $1 million) which was included in other revenue. The Corporation's foreign currency translation adjustment for 2009 resulted in a $2 million decrease in the balance of the investment in IGASAMEX USA Ltd. (2008 – $2 million reduction). The initial cost of the investment exceeded the Corporation's underlying share of the net book value of IGASAMEX USA Ltd. by approximately $5 million (2008 – $5 million).

14. Long-Term and Short-Term Debt

Years to Maturity	2009 Principal Outstanding (millions)	2009 Average Fixed Interest Rate (per cent)	2008 Principal Outstanding (millions)	2008 Average Fixed Interest Rate (per cent)
Province of Saskatchewan				
1 – 5	**$ 230**	**5.0**	$ 169	6.7
6 – 10	**242**	**4.5**	259	4.7
11 – 15	**34**	**6.7**	34	6.7
16 – 35	**285**	**6.5**	285	6.5
	791		747	
Unamortized premium/discount and issue costs	**(1)**		(1)	
Less due within one year	**(80)**		(39)	
Due to Province of Saskatchewan	**710**		707	
Other long-term debt	**5**	**13.5**	5	13.5
	$ 715		$ 712	

The effective interest rate on long-term debt was 5.4 per cent (2008 – 5.9 per cent).

a. Maturity dates

Maturity dates are equivalent to interest rate repricing dates.

b. Principal repayments

Principal repayments due in each of the next five years are as follows: (millions)

2010	2011	2012	2013	2014
$ 80	$ –	$ 50	$ 50	$ 50

c. Short-term debt

During 2009, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 0.5 per cent (2008 – 2.5 per cent).

Short-term debt at December 31, 2009 consists of $108 million (2008 – $164 million) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 0.3 per cent (2008 – 1.4 per cent).

15. Accounts Payable

	2009	2008
	(millions)	
Supplier payables	$ 61	$ 73
Interest payable	8	9
Other payables	57	50
	$ 126	$ 132

16. Asset Retirement Obligations

The Corporation has estimated the future costs of decommissioning certain natural gas facilities. The timing of future decommissioning and settlement dates of these obligations are conditional upon the Corporation's intended use for these facilities. For purposes of estimating the fair value of these obligations, as at December 31, a settlement period ranging from 2010 to 2022 has been assumed.

As at December 31, 2009 the estimated future cash flows required to settle these obligations were $10 million (2008 – $10 million), which were discounted to $8 million (2008 – $8 million) applying credit adjusted risk free rates ranging from 3.2 to 6.4 per cent.

17. Accumulated Other Comprehensive Loss

The balance in accumulated other comprehensive loss consists of the following:

	2009	2008
	(millions)	
Unrealized losses on translating financial statements of self-sustaining foreign operations	$ (3)	$ (3)

18. Equity Advances

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

19. Commitments and Contingencies

a. Guarantees

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5 million (United States dollars).

b. Letters of credit

i. The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4 million (United States dollars) letter of credit in favour of Scotiabank Inverlat S.A., a Mexican bank. The letter of credit is used as collateral for the Corporation's share of a line of credit issued to IGASAMEX USA Ltd. Scotiabank Inverlat S.A. may draw upon this letter of credit if IGASAMEX USA Ltd. defaults under the terms of its loan agreement with Scotiabank Inverlat S.A.

ii. The Corporation has posted a $10 million letter of credit with NGX Financial Inc. (NGX) as security for natural gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of, natural gas as per the related contract.

iii. The Corporation has posted an $8 million letter of credit with the City of Medicine Hat as security for natural gas purchases. The City of Medicine Hat may draw on the letter of credit if SaskEnergy fails to make timely payment for natural gas as per the related natural gas purchase agreement.

19. Commitments and Contingencies (continued)

c. Leases

Future payments under operating leases are as follows: (millions)

2010	2011	2012	2013	2014	Thereafter	Total
$ 5	$ 3	$ –	$ –	$ –	$ 1	$ 9

20. Revenue Collected For and Paid to Municipalities

a. Natural gas distribution

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the consolidated statement of income. In 2009, revenue collected for and paid to municipalities was $24 million (2008 – $23 million).

b. Natural gas transmission

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities on the consolidated statement of income. In 2009, revenue collected for and paid to municipalities was $2 million (2008 – $2 million).

21. Other Revenue

	2009	2008
	(millions)	
Royalty revenue	$ 3	$ 6
Natural gas and liquid sales	4	8
Income from investments accounted for by the equity method	3	2
	$ 10	$ 16

22. Interest Expense

	2009	2008
	(millions)	
Interest expense on long-term debt	$ 44	$ 41
Interest expense on short-term debt	1	4
Amortization of debt premium/discount and issue costs	1	1
Debt retirement funds earnings	(2)	(3)
Debt retirement funds fair value adjustment	–	1
Interest capitalized	(1)	(1)
Interest allocation to commodity cost of gas sold	–	(2)
	$ 43	$ 41

Interest paid during 2009 on long-term debt was $45 million (2008 – $44 million).

23. Amortization

	2009	2008
	(millions)	
Intangible assets	$ 5	$ 4
Property, plant and equipment	56	55
Customer capital contributions	(4)	(4)
	$ 57	$ 55

The estimated service lives are based on depreciation studies with annual reviews for reasonableness.

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.4 per cent during 2009 (2008 – 3.3 per cent).

24. Saskatchewan Taxes

	2009	2008
	(millions)	
Corporate capital tax	$ 7	$ 6
Property taxes and other	1	2
	$ 8	$ 8

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

25. Net Change in Non-Cash Working Capital

	2009	2008
	(millions)	
Accounts receivable	$ 47	$ (31)
Natural gas in storage held for resale	(59)	(50)
Inventories of supplies	7	(4)
Accounts payable	(20)	2
	$ (25)	$ (83)

26. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

	2009	2008
	(millions)	
Revenue	$ 43	$ 48
Operating expenses	34	32
Customer capital contributions	32	36
Accounts receivable	3	3
Accounts payable	24	10

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

27. Employee Future Benefits

a. Pension plans

Employees of the Corporation are members of either a defined contribution (the "Public Employees Pension Plan") or a defined benefit pension plan (the "Power Corporation Superannuation Plan"). The Corporation's obligations are limited to making contributions for employees' current service. Saskatchewan Power Corporation, a related Crown corporation, is responsible for any unfunded liabilities in the defined benefit plan.

During the year, the Corporation contributed $5 million (2008 – $4 million) on behalf of employees for current services.

27. Employee Future Benefits (continued)

b. Retiring allowance plan

The amounts related to the unfunded defined benefit retiring allowance plan for executive, management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

	2009	2008
	(millions)	
Accrued benefit liability	**$ 14**	$ 14
Benefits paid during the year	**1**	1
Net expense	**2**	(1)

The Corporation measures its accrued benefit liability as at December 31 of each year with an annual actuarial valuation. The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2009	2008
Discount rate	**5.2 per cent**	7.1 per cent
Inflation rate	**2.5 per cent**	2.5 per cent
Average remaining employee service life	**7.9 years**	8.3 years

For employees who are members of the CEP, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004 less service time converted to other employee benefits. Remaining entitlements, if any, under the retiring allowance plan will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

For management employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2005. Entitlements under the retiring allowance plan will be paid out to management employees upon their retirement in accordance with the terms of the plan.

28. Rate Regulation

Rate regulation did not cause the Corporation to account for transactions or events differently than it would have in the absence of rate regulation, except where specifically noted. The impact of rate regulation on the Corporation was as follows:

a. SaskEnergy Incorporated

By virtue of legislation, SaskEnergy has the authority to sell and the exclusive authority to distribute natural gas within Saskatchewan. In accordance with an Order in Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for commodity and delivery revenue are as described in note 2h. SaskEnergy's delivery revenue was $181 million for 2009 (2008 – $171 million) and commodity revenue was $411 million for 2009 (2008 – $418 million).

Cost of gas sold is accounted for in accordance with the policy described in note 2i.

For those commodity sales subject to the rate-setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the balances reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

28. Rate Regulation (continued)

In accordance with the foregoing rate-setting process, commodity revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies described in note 2h. The amounts accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Office of the Provincial Auditor of Saskatchewan.

b. TransGas Limited (TransGas)

By virtue of legislation, TransGas has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, the Provincial Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the SRRP.

Based on the foregoing rate-setting process, revenue recognition policies for transportation revenue are as described in note 2h. TransGas transportation revenue was $64 million for 2009 (2008 – $60 million).

c. Many Islands Pipe Lines (Canada) Limited (MIPL)

The business activities of MIPL are regulated by the National Energy Board.

Revenue recognition policies for MIPL transportation revenue are as described in note 2h. MIPL transportation revenue was $1 million for 2009 (2008 – $1 million).

d. Swan Valley Gas Corporation (SVGC)

The business activities of SVGC are regulated by the Manitoba Public Utilities Board. SVGC's delivery revenue was $1 million for 2009 (2008 – $1 million) and commodity revenue was $1 million for 2009 (2008 – $1 million).

29. Joint Venture

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50 per cent proportionate share of the Kisbey Gas Gathering and Processing Facility, an unincorporated joint venture:

a. Consolidated statement of financial position

	2009	2008
	(millions)	
Property, plant and equipment	$ 16	$ 5
Current liabilities	(3)	–
Investment in joint venture	$ 13	$ 5

b. Consolidated statement of income

	2009	2008
	(millions)	
Revenue	$ 1	$ 2
Expenses	(1)	(1)
Income from joint venture	$ –	$ 1

c. Consolidated statement of cash flows

	2009	2008
	(millions)	
Cash provided by operating activities	$ 3	$ 1
Cash used in investing activities	(10)	–
Increase/(decrease) in cash	$ (7)	$ 1

30. Comparative Figures

Certain of the prior year's figures have been reclassified to conform with the current year's presentation.

BOARD OF DIRECTORS

Robert (Rob) Pletch, Q.C.
MacPherson Leslie & Tyerman LLP
(Board Chair, SaskEnergy)
Regina, Saskatchewan

Mr. Pletch is Chairman and a Senior Partner of MacPherson Leslie & Tyerman LLP. He has acted for major clients on mergers, acquisitions, financings and development strategies. He holds both a Bachelor of Arts and a Law Degree and has served the Saskatchewan business community in the areas of commercial and corporate law for more than thirty years. Mr. Pletch has served as Chair of the SaskEnergy Board of Directors since 2008.

Nadine Krenosky
Greystone Managed Investments Inc.
(Vice Chair, SaskEnergy)
Regina, Saskatchewan

Ms. Krenosky is currently the Chief Compliance Officer at Greystone Managed Investments Inc. and holds a Bachelor of Administration Degree and a CFA Charter. After articling with Ernst & Young, Ms. Krenosky received her CA designation in 1999 and continued in public practice until 2002. Ms. Krenosky has served on SaskEnergy's Board of Directors since 2004, and she is currently the Vice Chair.

James Baker
J. P. Baker Management Inc.
Regina, Saskatchewan

Mr. Baker is the President of J. P. Baker Management Inc. and has extensive experience in the oil and gas industry. His experience includes operating a consulting business specialized in the business development of oil and gas-related initiatives in Saskatchewan and Alberta. Mr. Baker has served on the SaskEnergy Board of Directors since 2008.

David Bishop
McKercher LLP
Regina, Saskatchewan

Mr. Bishop is a partner at McKercher LLP where he practices commercial and residential real estate law, business law, criminal defence, criminal prosecution (as an agent of the Attorney General of Canada) and elder law. He holds a Bachelor of Arts Degree and a Bachelor of Law Degree and is actively involved in the legal community. Mr. Bishop has served on the Board of Directors since 2008.

Ralph Hesje, P. Eng.
Petrowest Energy Services Trust
Calgary, Alberta

Mr. Hesje has worked in the energy industry since 1974, including several years of international service. He has a degree in Mechanical Engineering and is currently the President of Petrowest Energy Services Trust. Mr. Hesje has served on SaskEnergy's Board of Directors since 2001.

Neal Krawchuk
Mega Group Inc.
Saskatoon, Saskatchewan

Mr. Krawchuk is the Vice President of Credit and Administration for Mega Group, a privately held management and marketing company servicing the home furnishing industry throughout Canada and the United States. In addition, Mr. Krawchuk serves as a director on the Board of Investment Saskatchewan and has gained extensive experience in commercial finance, sales and customer service. Mr. Krawchuk was appointed to SaskEnergy's Board of Directors in 2009.

Mitch McLeod
Peak Energy Services
Calgary, Alberta

Mr. McLeod is currently a Senior Account Manager with Peak Energy Services, a drilling services company based in Calgary, where he is responsible for providing strategic leadership and specialized services to a variety of large corporate clients in the oil and gas industry. Mr. McLeod has a Bachelor of Public Administration and more than 20 years of experience in the oil and gas industry. He was appointed to SaskEnergy's Board of Directors in 2009.

Brad Nelson
Honey Bee Manufacturing Ltd.
Frontier, Saskatchewan

Mr. Nelson has been involved in the agricultural industry since 1975 and is currently the General Manager of Honey Bee Manufacturing Ltd. in Frontier, Saskatchewan. He has extensive experience in corporate directorship through his involvement with the Frenchman Valley Regional Development Committee and Ag Manufacturers of Canada (AMC). Mr. Nelson has served on the Board of Directors since 2008.

James Rybchuk, Q.C.
McDougall Gauley LLP
Regina, Saskatchewan

Mr. Rybchuk has worked for McDougall Gauley LLP since 1994 and holds a Bachelor of Law Degree. His legal focus includes business law and litigation. Mr. Rybchuk also represents and advises provincial, national and international businesses and governments on their governance, organizational and related business affairs and dealings, including the day-to-day management and operations of their interests. Mr. Rybchuk has served on the Board of Directors since 2008.

Victor Thomas
Global Bridgeway Inc.
Regina, Saskatchewan

Mr. Thomas is currently the International Vice President of Global Bridgeway Inc., a Regina-based business development company, and has been acknowledged both locally and nationally for his leadership and public speaking capabilities. He holds a Degree in Business Administration from the University of Regina and has also completed certificate programs from York University, Université St. Anne and the University of Ulsan. Mr. Thomas has a Chartered Director designation from McMaster University and has served on the Board of Directors since 2008.

Neil Henneberg
Crown Investments Corporation of Saskatchewan (Board Secretary)
Regina, Saskatchewan

Mr. Henneberg has worked in the Saskatchewan Crown sector for more than 20 years, including twelve years with SaskEnergy Incorporated. He has a Business Administration Degree and has worked in the Strategy and Governance Division of Crown Investments Corporation since 2000. Mr. Henneberg has been the Board Secretary since 2006.

Note: Daryl Labach, Saskatoon, Saskatchewan, resigned from the Board of Directors on March 19, 2009.

EXECUTIVE COMMITTEE

Back row: Mark Guillet, Robert Haynes, Ron Podbielski, Phil Sandham, Daryl Posehn
Front row: Debbie McKague, Dennis Terry, Doug Kelln, Colleen Huber, Dean Reeve

Doug Kelln, President and Chief Executive Officer

Mr. Kelln brought a wide range of company knowledge when he was appointed President and CEO of SaskEnergy in 2004. Since starting with SaskPower's natural gas division in 1982, he has had increasing levels of responsibility in the areas of engineering, construction, planning, customer services, distribution operations, marketing and business development within SaskEnergy and TransGas. Mr. Kelln has a Bachelor of Civil Engineering Degree.

Mark Guillet, Vice President, General Counsel and Corporate Secretary

Mr. Guillet is Vice President, General Counsel and Corporate Secretary for the Corporation and is responsible for the Legal and Land Departments. He is also the Chief Privacy Officer. A graduate of the University of Saskatchewan, Mr. Guillet has experience in corporate, commercial, governance and privacy legal issues.

Robert Haynes, Vice President, Human Resources

After working with SaskPower as a Solicitor from 1985 to 1988, Mr. Haynes joined SaskEnergy where he was appointed to the position of General Counsel and Corporate Secretary. In 1995, he moved to his current position as Vice-President of Human Resources. In this role, Mr. Haynes is responsible for all aspects of the Corporation's human resource policies and practices, and for overseeing the Corporation's approach to Health, Safety and Employee Well-Being. Mr. Haynes has a Bachelor of Administration Degree, Public Policy and a Bachelor of Law Degree.

Colleen Huber, Vice President, Corporate Support

As Vice President of Corporate Support, Ms. Huber is responsible for corporate technology, facilities, security, vehicles and equipment, inventory and corporate procurement. She joined the Executive in 2000 after successfully progressing through various management positions within TransGas and SaskEnergy. She is a graduate of the University of Regina.

Debbie McKague, Vice President, TransGas Market Services and System Management

In her current role, Ms. McKague is responsible for TransGas Customer Services, Pipeline Control and Planning as well as TransGas Policies, Rates and Regulations. Over the years, she has gained experience in various areas including Accounting, Billing Services, Rates, Gas Supply and, most recently, TransGas Customer Services.

Ron Podbielski, Executive Director, Corporate Affairs

Mr. Podbielski joined SaskEnergy as Executive Director, Corporate Affairs in July 1997 and has been employed in intermediate and senior communications capacities within government since 1986. He is responsible for corporate, government and internal communications and also supports the business planning and development processes. Mr. Podbielski is a graduate of the University of Regina's Journalism Program.

Daryl Posehn, Senior Vice President, TransGas Limited

Mr. Posehn began his career in 1976 as a design engineer with SaskPower. Since then, he has worked as Vice President and Senior Vice President of TransGas in a number of areas, including: operations, planning and customer service. He is currently responsible for the Corporation's Gas Supply portfolio and Business Development initiatives. Mr. Posehn has a Bachelor of Science Degree in Civil Engineering.

Dean Reeve, Executive Vice President, SaskEnergy

Mr. Reeve has worked in a number of financial, business development and customer service functions within SaskEnergy and TransGas and is currently the Executive Vice President responsible for SaskEnergy's Distribution Utility. In this role, he leads customer service, engineering, construction, business and marketing initiatives for SaskEnergy. Mr. Reeve is a Chartered Accountant and has a Bachelor of Administration Degree.

Phil Sandham, Vice President, TransGas Operations and Engineering

Mr. Sandham brings leadership and experience from his previous senior positions in Transmission Operations, Engineering and Technology and Customer Services, to his current role as Vice President of TransGas Operations and Engineering. He is responsible for ensuring the safe and reliable operation of the transmission system and for overseeing the environmental initiatives of the Corporation. Mr. Sandham has a Bachelor of Science in Civil Engineering Degree.

Dennis Terry, Vice President, Finance and Chief Financial Officer

Mr. Terry joined SaskEnergy in April 2009. Prior to joining SaskEnergy, he was Chief Financial Officer for Yara Belle Plaine Inc. where he gained experience in Gas Price Management strategy development and oversight within Saskferco operations related to significant natural gas commodity purchases. He provided direct accountability for the Yara Belle Plaine Finance team including financial reporting, accounting functions, treasury management, budget leadership and financial due diligence for business development activities. Mr. Terry's areas of responsibility include strategic planning, financial planning, financial reporting, billing services, treasury management and corporate accounting. Mr. Terry is a Chartered Accountant and has a Bachelor of Administration Degree.

CORPORATE GOVERNANCE DISCLOSURE

Board Stewardship/Mandate

The SaskEnergy Board of Directors (the Board) is responsible for the stewardship of the Corporation, and oversees and closely monitors the Corporation's adherence to provisions of *The SaskEnergy Act* and Regulations. The Board has adopted written Terms of Reference, which state that the Board sets the strategic direction, ensures the integrity and adequacy of the Corporation's systems and management practices, and periodically examines the objectives and mandates of its structure. The Board promotes a culture of integrity, ensures that the principal corporate risks are managed, and evaluates the performance of, and monitors, financial results.

Board Composition

SaskEnergy's Board is representative of the Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints up to 12 members and designates a Chair and Vice Chair. Members possess a variety of significant attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, initiative and sound judgment. There are currently ten people appointed to SaskEnergy's Board of Directors. The Board Chair is Mr. Robert Pletch, Q.C. and the Vice Chair is Ms. Nadine Krenosky.

Independence

The matter of "independence from management" is based on the definition set by Canadian Securities Administrators (CSA) and utilized by publicly traded companies in the industry. None of the directors has worked with, or for the Corporation, or has direct material contracts or relationships with the Corporation, or has received remuneration from the Corporation in excess of the fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation. However, three directors are partners in law firms that have performed legal services for the Corporation in 2009, and are thereby deemed to have a material indirect relationship with the Corporation under the above standard. Although the Corporation is not in strict compliance with the CSA independence standard, the Corporation's Owner, the Crown Investments Corporation of Saskatchewan (CIC) has managed this issue through the development of a Protocol regarding *Lawyers Serving on CIC Subsidiary Crown Corporation Boards of Directors*. This Protocol adopts the principle that directors must be free from any material relationship that may interfere with the director's ability to exercise independent judgment in the best interests of the Corporation or to influence the choice of law firms. Given the smaller local market in Saskatchewan for legal services, the Protocol restricts directors from any direct material relationship, but allows a limited indirect relationship subject to the qualifications of the Protocol, such as pre-approval of legal services by an independent Board Committee, declarations of conflict, no direct benefit to the director and restriction of information to that director. The Board has appointed a special ad hoc committee of independent non-lawyer Board members to review and approve the Corporation's external legal service providers in accordance with this Protocol on an as-required basis. The Board Chair, Robert Pletch, Governance Committee Chair, James Rybchuk, and Safety, Health and Environment Chair, David Bishop are lawyers that are subject to this Protocol and are indicated by an asterisk to reflect that they are not independent. All other Directors, including the Vice Chair of the Board are independent of management. At each Board and Committee meeting, the Directors meet in-camera without the presence of management.

Committee Mandates and Membership

The Board fulfills its oversight responsibilities for the operation of SaskEnergy by utilizing its five Board Committees. The Terms of Reference or mandates of the Committees are reviewed annually and updated where required. The Terms of Reference for each Committee establishes the constitution, operations and areas of responsibility over which Committees make recommendations to the Board. Full details of the Terms of Reference for each Committee can be found on SaskEnergy's corporate website at www.saskenergy.com/about_saskenergy/governance.asp. Committees have also adopted work calendars to schedule and fulfill the specific tasks and assigned responsibilities. Each Committee has the authority to

engage and compensate outside advisors that it deems necessary to assist it with its mandate.

Audit and Finance Committee
Chair: Nadine Krenosky
Members: Jim Baker, Neal Krawchuk, Robert Pletch*, James Rybchuk*

Except as qualified previously, all members of the Audit and Finance Committee are independent of management. All Committee members are financially literate and one is considered to be a financial expert as those terms are commonly defined with respect to the composition of audit committees.

The Audit and Finance Committee oversees the financial performance and ensures the integrity, effectiveness and accuracy of the Corporation's financial reporting, control systems, risk management and audit functions. The Committee ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall Strategic Plan, annual business plan and public policy objectives. The Committee meets regularly outside the presence of management with the appointed external auditor, the Provincial Auditor and with internal auditors.

Important issues dealt with this year included preparation for the implementation of International Financial Reporting Standards (IFRS) and assessment of impacts and choices on policies and elections, CEO/CFO certification process and divestiture of subsidiary assets in Heritage Gas. The Committee also dealt with both commodity and delivery rate applications, as well as risk reviews and assessments regarding commodity controls and inventory valuation in a time of significant market and gas price volatility.

Business Development Committee
Chair: Jim Baker
Members: Mitch McLeod, Victor Thomas

This Committee provides guidance that enables SaskEnergy to grow in a more strategic direction. The Committee is comprised of members who assist the Board in oversight of new strategic and tactical investments and business opportunities.

This year, notable work of the Committee included focus on commodity related opportunities for non-regulated businesses, innovative energy solution activities, support for provincial CO_2 infrastructure needs, divestiture of subsidiary assets in Heritage Gas and support for expansion of TransGas storage capacity within Saskatchewan.

Governance Committee
Chair: James Rybchuk*
Members: David Bishop*, Nadine Krenosky, Mitch McLeod

This Committee is responsible for matters relating to SaskEnergy's corporate governance regime. It has input into the selection criteria for candidates for Board members, Chairs, and creates profiles of the desired skills, experience and competencies required of directors. An ad hoc Board Committee is created when necessary to identify and recommend to the Board candidates for the position of President and CEO, while the Governance Committee is responsible to oversee that the incumbent fulfills the role set out in the CEO Mandate. This Committee monitors compliance with the Code of Business Conduct and Ethics, and any waivers therefrom. The Committee is charged with planning, orientation and education programs to keep directors informed and current with business and ethical requirements.

Key work of the Committee in 2009 included orientation and business/industry training of two new directors, search and nomination activities, as well as detailed discussion around delegation of decision making between the Board and Management on Bright Line issues.

Human Resources/Compensation Committee
Chair: Ralph Hesje
Members: Victor Thomas, Brad Nelson, Robert Pletch*

This Committee is responsible for, and assists the Board in overseeing the management of SaskEnergy's human resource strategic planning, programs and practices for the development and implementation of fair compensation, performance management and succession planning. The Committee also sets the CEO's performance goals and objectives and conducts a detailed assessment of the CEO's performance against them through the Committee Chair. In 2009, the process was enhanced to include a semi-annual review. The findings of this evaluation and any changes to the CEO's compensation as a result of the review are recommended to the Board. Further, the Committee recommends to the Board for approval of employee and executive compensation, including measures and targets, taking

direction on its mandate through communication with the shareholder, CIC.

Key initiatives reviewed by the Committee in 2009 were those of corporate succession management, a comprehensive review of Executive and CEO objectives and performance on same, and a review of Executive compensation and benefits compliance against policies.

Safety, Health and Environment Committee
Chair: David Bishop*
Members: Neal Krawchuk, Brad Nelson

The mandate for this Committee is to proactively address safety, health and environmental issues ensuring that adequate and effective controls are in place to monitor compliance with regulatory and statutory requirements.

Important issues dealt with this year include environment and sustainability plans and mitigation, Environmental Risk Management Overview, Pandemic Preparedness Plan review and Disability Management and Return to Work policies.

**Non-independent Board Member*

Roles and Responsibilities

The roles and responsibilities of the Chair, Committee Chairs, individual Directors and the President and CEO are set out in written position descriptions and posted on SaskEnergy's website.

Individual Directors have a Position Description that sets out the roles and responsibilities of Directors, including legal requirements, accountability, stewardship, knowledge and education, conflicts, confidentiality, as well as expectations for attendance and review of materials in preparation for meetings.

The CEO's Mandate sets out the principal duties and responsibilities for the President and CEO to meet. These form th goals and objectives of the President and CEO and are incorporated into annual performance objectives against which the Human Resources/Compensation Committee measures the CEO's performance. In 2009, the CEO Mandate was reviewed and updated by the Governance Committee and the Board.

To further assist in the delineation of roles and responsibilities assigned to management, the Board regularly reviews the authority it delegates to management through a series of execution and expenditure authorization policies, considering updates as organizational and business circumstances change. Additional limits are placed upon both management and the Board through legislation requiring Orders in Council, compliance with investment requirements or changes to legislative mandates through *The SaskEnergy Act*. The Board has also approved a Bright Line Mandate which is a decision-making matrix that sets out the ultimate decision-making body on key matters and is validated by the Board annually.

Strategic Planning and Reporting

One of the Board's principal duties is to provide leadership in setting the long-range strategic direction and to approve SaskEnergy's overall Strategic Plan. This comprehensive strategic planning process results in the review and approval by the Board of the Corporation's Strategic Plan, annual operating and capital budgets and business plan.

The Board of Directors participates with management to identify and set long-term goals for SaskEnergy through the strategic planning and business planning process. The corporate Strategic Plan involves a five-year rolling projection, updated annually. The Board oversees this process, providing input, guidance, validation and critical evaluation of the Strategic Plan and its initiatives. The Board continues to provide oversight, and support in the implementation of the plans and initiatives and to measure their success. Each year, the Board and senior management meet jointly to identify strategic risks, and review strategies and measurable targets to gauge performance in managing those risks.

Public Policy Role

SaskEnergy is a statutory Crown corporation governed by *The SaskEnergy Act* and Regulations. By legislation, CIC is the holding corporation for all of Saskatchewan's commercial Crown corporations. CIC has the authority to establish direction for SaskEnergy related to matters set out in legislation.

As a provincial Crown corporation, SaskEnergy ves a public policy role. Its mission is to develop and deliver safe, reliable natural gas solutions that benefit its customers and Saskatchewan through its team of dedicated employees and business partners. SaskEnergy and its subsidiaries fulfill this mission through the operation of systems for natural gas distribution,

transmission, storage, line locating and other related activities to promote conservation and the safe use of natural gas, while contributing to and promoting the economy of the Province. CIC annually approves SaskEnergy's business plan, and sets any other strategic priorities which the Corporation's performance will be measured against by the Owner.

Approach to Governance

Although SaskEnergy is not legally obligated to comply with the CSA governance guidelines, it tries to follow those that are applicable and has benchmarked its governance practices against the CSA National Policy and Instrument Guidelines, guidelines of the Canadian Institute of Chartered Accountants (CICA), observations of the Federal Auditors, Treasury Board and Conference Board of Canada, to address key performance indicators in the measurement of governance. The practices of SaskEnergy are substantially consistent with the foregoing standards as published.

Integrity and Ethics

SaskEnergy promotes a strong culture of ethical business conduct at all levels of the Corporation. The Board has approved and adopted a written Code of Business Conduct and Ethics (the Code), which is applicable to employees, officers and directors of SaskEnergy. The Code, which is designed to promote integrity and deter wrongdoing, is based on values of fairness and honesty, equal treatment and accountability. The Code provides guidelines on handling information and protection or use of corporate assets, confidentiality, conduct with suppliers and customers, business history, international business, conflicts of interest, compliance with laws and policies and reporting.

To further promote public confidence in the integrity of SaskEnergy and its employees, a Whistleblower Policy was adopted which sets out a formal process for the reporting, investigation and appropriate follow-up for actual or potential wrongdoing. In addition, SaskEnergy's Owner requires public disclosure of all losses over a threshold of $200 to the police, and over $500 to the Board, Minister and legislature pursuant to the Reporting of Losses Policy and processes.

Compliance with the Code is verified through mandatory training of all employees, and acknowledgement by an on-line tool. In 2009, extensive training was conducted with all out-of-scope supervisory staff on a variety of accountability measures including obligations under these policies. The Code, the Whistleblower and Reporting of Losses Policies are posted on the internal intranet site for employees, and the Code and Whistleblower Policies are on SaskEnergy's website for public access. A process is also posted on the website for members of the public to contact the Chair of the Governance Committee of the Board in confidence to report any potential violation of the Code or Whistleblower policy.

Management monitors and reports on any issues arising under the Code annually, the Whistleblower Policy semi-annually, and the Reporting of Losses Policy quarterly, to the Governance and Human Resources/ Compensation Committees who are charged with oversight of compliance with these two policies.

In addition to the Code, SaskEnergy's Directors are required to abide by CIC's Directors' Code of Conduct. The Governance Committee, appointed as Ethics Advisor for this purpose, is required to administer, monitor and enforce the Directors' Code of Conduct, which includes reporting annually to the Board concerning compliance. It is also standard procedure to commence all Board and Committee meetings with an agenda item providing Directors with an opportunity to declare any conflicts of interest or any changes to outside employment or directorships they hold, which may create a potential or perceived conflict of interest. In 2009, there were no waivers granted by the Board to any Directors or Officers authorizing non-compliance with these policies.

Risk Identification and Management

SaskEnergy has a risk management process which is designed to identify potential events that may impact SaskEnergy and oversee the management of risk within accepted tolerance levels. Senior management holds primary responsibility for identifying inherent risks, and designing and implementing initiatives to mitigate them. The Board requires management to assure that risks are managed and that appropriate controls and delegations of authority are in place.

Each year, the Board and senior management independently follow a process led by Internal Audit with the assistance of a consultant to identify and prioritize residual risks. A report is prepared by the Director of

Audit Services that summarizes the independent risk assessment findings of both the Board and management. This report is brought forward to be discussed at a Board meeting where senior management and the Board review the variations and risk mitigation plans to deal with the residual risks.

The business plan addresses and implements solutions for key risks. The Board will monitor the risk management programs and oversee implementation of appropriate systems to manage those risks either directly, or through the Audit and Finance Committee. The Audit and Finance Committee regularly reviews the reports and will discuss significant risk areas with the internal and external auditors.

Integrity of Internal Controls and Management Systems

The Board and Audit and Finance Committee receive reports from, and work closely with, the internal and external auditors to promote financial transparency and ensure/monitor the integrity, effectiveness and adequacy of SaskEnergy's internal controls and management information systems.

As part of the commitment to accountability, the Audit and Finance Committee reviews the financial performance of the Corporation quarterly. Commodity purchase transactions and credit issues are actively monitored by the Audit and Finance Committee which oversees management's analysis and reporting. In 2009, in light of significant volatility in the world economy and markets, the Audit and Finance Committee undertook a review and consolidation of natural gas commodity-related activities and policies into the Commodity Marketing Risk Management Policy to enhance control of trading activities.

In 2009, SaskEnergy continued with the internal controls certification initiative, under the directive of CIC. The goal of this initiative is to establish that SaskEnergy's internal controls provide reasonable assurance of the accuracy and quality of information reported in the financial statements and other disclosures. In addition, for January 2010, SaskEnergy has worked on adopting parallel IFRS financial reporting, requiring the Board to assess and address the impact of doing so on current accounting standards and practices, to prepare for the January 2011 implementation date.

The Board oversees the annual external audit plan of the appointed external auditor for the audit of the Corporation's annual financial statements, and the annual internal audit plan carried out by SaskEnergy's internal audit group. To preserve the independence of the role of the external auditors, the Audit and Finance Committee must pre-approve all non-audit services undertaken by the external auditor over a $3,000 threshold, in accordance with the Non-Audit Services Policy.

Succession Planning

A succession plan for key management positions and leadership development initiatives is reviewed annually by the Human Resources/Compensation Committee to ensure continuity and depth throughout the Corporation over the long term. The review identifies employees who are in a position to replace incumbents and those who require further training or development for leadership positions, as well as the adequacy of the succession planning strategy by executive officers. The Board supports SaskEnergy's commitment to the training and development of all employees.

Communications (with the Shareholder and Stakeholders)

SaskEnergy is committed to the principles of transparency, openness and timeliness in communication with its Owner, employees, stakeholders and the public. It complies with the communication requirements set by the shareholder and by statute, in accordance with the Board approved external communications policy. Through the Board Chair, the Board is accountable to the Minister Responsible for SaskEnergy. The Minister functions as a communication liaison amongst the Corporation, CIC, Cabinet, the Provincial Legislature and the public.

SaskEnergy strives to strike a balance between transparency and maintaining customer confidentiality in matters of communication and disclosure, as an entity subject to the *Freedom of Information and Protection of Privacy Act*. The Corporation is subject to annual disclosure requirements of the Legislative Committee regarding Crown Payee Disclosure on all payments over $50,000 to employees and suppliers, and for all grants, donations and sponsorships over $5,000. All major public disclosures of corporate performance of the

Corporation are subject to prior approval of the Board. Senior executive members of SaskEnergy also appear before Legislative Committees to answer questions relating to the business of the Corporation in preceding years.

To facilitate feedback to and from the statutory Owner, the Board Chair is in communication with CIC, and also participates in a CIC Chairs forum where communication and feedback is provided on its expectations of all Saskatchewan Crown corporations. SaskEnergy's President and CEO regularly provides briefing materials to the Minister of Crown Investments Corporation and the Minister Responsible for SaskEnergy.

CEO Assessment and Executive Compensation

The President's performance is assessed against objectives approved by the Human Resources/ Compensation Committee which are related to the CEO position description and aligned with shareholder public policy objectives and the corporate Strategic Plan. Following a review by the Committee in 2009, this process was enhanced to incorporate a semi-annual review.

The governance standard established by the CSA for executive compensation disclosure is to report by summary compensation table, complete with detailed formulas. The mandate for executive compensation for Saskatchewan Crown corporations however, is established and monitored by the Owner, CIC and as such, senior management compensation aligns with the guidelines established by CIC. Given these controls on executive compensation, both the Board and senior management seek to provide information to the Owner, and any management compensation adjustments must fit within the parameters established by the Owner. The philosophy of providing market based compensation is applicable throughout the Corporation, from senior management downwards: to set performance objectives and expectations at individual, departmental and corporate levels, and to work towards and measure the achievement of these performance objectives. A key principle in SaskEnergy's compensation strategy is to provide fair and equitable pay representative of the individual performance of management employees.

Direct reports of the CEO, including all executive members, are required by legislation to file and report the details of their compensation and benefits and any changes to the Clerk of the Saskatchewan Legislature within 14 days. In addition, the Crown and Central Agencies Committee of the Legislative Assembly of Saskatchewan has by policy, required Crown corporations, including SaskEnergy, to file an annual payee list which includes the total compensation of executive members. The report is available on CIC's website at www.cicorp.sk.ca in the Publications section, under Reports. The Human Resources/Compensation Committee and the Board annually review the details of these compensation payment reports.

Board Renewal and Appointment

Appointment of directors is ultimately made by the Government by Order in Council, upon recommendation of CIC and the Board of Directors. The Board, through the Governance Committee, undertakes an analysis of the skills and experience necessary for the composite blend, and full functioning of the Board and its Committees, and makes nomination recommendations to the Owner. The Governance Committee is charged with assessing the skills and competencies for the Board and its Committees to support the strategic direction and operational needs of the Corporation. The Committee performs a skills gap analysis intended to assist in achieving a balance of the skills of Board members through the appointment of new members. The Governance Committee also makes annual recommendations to the Board regarding the appropriate structure, size and composition of the Board and its Committees, as well as the required qualifications.

Board Orientation and Education

With the appointment of two new Directors in 2009, the Governance Committee under its Board of Directors Training Policy approved a comprehensive orientation curriculum and training sessions to ensure that new and continuing Directors develop a strong understanding of SaskEnergy's business and current challenges. Board members also participate in continuing education on industry issues, financial reporting, business operations, procedural issues and ethical obligations to enhance their skills, abilities and knowledge currency. Given the pending transition to IFRS, the subject was allotted additional training focus. Directors also received intensive training on Pipeline and Facility Integrity Management Programs in October. CIC also facilitates additional

director training as part of its Subsidiary Crown Directors Training Program. This year, to gain a better understanding of SaskEnergy's operations, the Board took a site visit and tour to the new Provincial Training centre in Saskatoon, and new Directors visited the Regina Storage Caverns in the spring of 2009. Board members also interact with management and employees attending such functions as long service awards, or touring corporate offices or business units at Board meetings.

Board and Director Performance Assessment

The Governance Committee is responsible for implementing performance reviews for the Board, Committees, Chairs and individual Directors. It surveys the Directors to obtain feedback on the effectiveness and contribution of the Board, Committees, Chairs and individual Directors on a rotational, bi-annual basis. These results are summarized and reported to the Board as well as to the Board of Directors of CIC. The Governance Committee may utilize the assistance of an external consultant to conduct this task. The Committee also conducts ongoing assessments of individual Directors, their training and skill sets. For 2009, the process consists of a Director's survey on the performance and effectiveness of the Committees, Committee Chairs and peers.

Director Remuneration

Compensation received by directors is fixed by CIC under the *Crown Corporations Act, 1993*. The Governance Committee has authority to recommend to the Board (and the Board to CIC) adjustments to such compensation. The Audit and Finance Committee receives quarterly reports respecting the remuneration of Directors and reports any anomalies to the Board. Directors are paid an annual retainer for their services on SaskEnergy's Board, as well as a set per diem fee for travel time and attending Committee and Board meetings as follows:

- Chair of the Board: annual retainer of $15,000 and $900 Chair meeting fee,
- Other Directors: annual retainer of $10,000 and $700 meeting fee,
- Chairs of Committees: $800 Chair meeting fee
- Vice Chair of the Board: receives Chair meeting fee when acting in that capacity, as do the Committee Chairs receive their respective Chair meeting fee while acting in that capacity, but not as a regular committee member,
- Directors also receive reimbursement for their reasonable out-of-pocket expenses including travel, meals and accommodations while performing their duties.

Most Board members sit on two committees. There were eight Board meetings and 30 Committee meetings in 2009. The total remuneration paid to directors (annual retainers, pro-rated for the portion of the year each director was a member of or chaired a Committee, plus per diems) was $263,021, compared to $207,480 in 2008. The total business travel and meeting expenses paid to members of the Board were $28,480, compared to $19,635 in 2008.

Member	Board	Audit	Business Development	Governance	HR/ Compensation	SHE	Total Attendance	Overall %
Pletch	8/8	8/8	3/3		7/7		26/26	100
Baker	6/8	6/8	7/7				19/23	83
Bishop	7/8			4/4		4/4	15/16	95
Hesje	7/8				7/7		14/15	93
Labach	2/2[1]		1/1[1]			1/1[1]	4/4	100
Krawchuk	5/6[2]	5/6[3]				2/3[5]	12/15	80
Krenosky	8/8	8/8		4/4			20/20	100
McLeod	5/6[2]		6/6[6]	2/3[4]			13/15	87
Nelson	6/8				7/7	4/4	17/19	90
Rybchuk	8/8	8/8		4/4			20/20	100
Thomas	8/8		7/7		7/7		22/22	100

Footnotes:
[1] Labach resigned March 19, 2009, and attended meetings up to that date, as reflected in the attendance.
[2] Krawchuk and McLeod appointed February 27, 2009 – total number of meetings to attend was 6.
[3] Krawchuk started attending A&F at April meeting – total number of meetings to attend was 6.
[4] McLeod started attending Governance at May meeting – total number of meetings to attend was 3.
[5] Krawchuk started attending SHE at April meeting – total number of meetings to attend was 3.
[6] McLeod started attending Business Development at March meeting – total number of meetings to attend was 6.

For the purposes of this report, directors who attended meetings in part were considered to be present.

OUR FUTURE

Competitive Rates:

SaskEnergy Commodity

This measure reports the ranking of SaskEnergy's cost of natural gas reflected through its commodity rate relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also reflect all temporary and one-time refunds, rebates, rate riders or surcharges approved by the utility's regulator. Federal, Provincial and municipal taxes are excluded from the comparison, as are any Government rebates not directly approved by the utility's regulator.

SaskEnergy Delivery

This measure reports the ranking of SaskEnergy's natural gas distribution delivery service rates relative to the rates charged by other major Canadian utilities. The cost comparison is based on a benchmark level of consumption upon which the published rates of other service providers are applied to determine SaskEnergy's relative ranking. The calculations also factor in all temporary and one-time refunds, rebates, rate riders or surcharges approved by the utility's regulator. Federal, Provincial and municipal taxes are excluded from the comparison, as are any Government rebates not directly approved by the utility's regulator.

TransGas Export Rates

As a benchmark measurement of competitive natural gas transportation rates, the TransGas Export Rate is compared to that offered by TransCanada Pipeline's Nova Gas Limited subsidiary (Nova) – a company that provides services in Alberta similar to those provided by TransGas in Saskatchewan. The measure compares the cost of moving natural gas from any receipt point in Saskatchewan to the export market with the cost of moving natural gas from the average receipt point in Alberta to the export market.

Community Investment:

Investment *(millions)*

Three specific measures allow SaskEnergy to create a broad social footprint on the Province: its financial investments or donations, the number and diversity of projects it supports, and the number of communities it benefits by supporting these initiatives. SaskEnergy aims to have a broad-ranging impact on the Province, as evidenced by future targets.

SaskEnergy's financial investment is separated into three budgetary categories: the SaskEnergy Community Fund, which allows the Corporation to help community-based projects with support of up to $2,500, a general sponsorship fund and an Aboriginal sponsorship fund. Criteria are based upon four specific categories: Education and Leadership, Community Engagement, Saskatchewan Pride and Environmental Stewardship. This measure tracks the financial investment SaskEnergy has made through the categories listed above. The investment total reflects cash donations and sponsorships only and does not include in-kind contributions.

OUR FUTURE

Projects Supported

This measure tracks the number of projects, events and programs supported by the Corporation.

Communities Impacted

SaskEnergy's community investment activity is also measured by the number of urban and rural locations supported each year. As Saskatchewan's natural gas provider, which serves more than 92 per cent of the population, the Corporation strongly believes its sponsorships and community investments should directly target the places where its stakeholders live. SaskEnergy supports programs in 250 to 300 communities annually.

Percentage of Goods and Services Sourced In Saskatchewan

SaskEnergy tracks the percentage of goods and services it sources from Saskatchewan suppliers out of the total goods and services acquired. SaskEnergy's goal has been to source goods and services from within Saskatchewan wherever possible, with the expectation of certain necessary goods and services that are not available within the Province. This measure is not based on total corporate expenditures, but rather focuses on inter-Crown purchases and transactions that are completed between the Purchasing Department and Saskatchewan suppliers.

Total Contracts – Percentage of Aboriginal Labour Content

This measure tracks the percentage of Aboriginal labour content in the Corporation's labour service contracts and supplier alliance agreements managed by the Purchasing Department.

Environmental:

Customer Efficiency Programs – Number of Customers Impacted (Direct and Indirect)

This measure represents the number of customers directly and indirectly benefiting from customer energy efficiency programs.

The number of customers impacted directly refers to programs that SaskEnergy funds. An example of a program that benefits customers directly is the $15 Programmable Thermostat Rebate.

The number of customers impacted indirectly refers to programs that are administered by SaskEnergy leveraging funding from the Provincial and Federal Governments. An example of a program that benefits customers indirectly is the Saskatchewan EnerGuide for Houses Program.

Internal Energy Efficiencies

This measure consists of energy efficiency improvements or reductions in fuel usage at the Corporate level including reductions in compressor fuel, line heater fuel, building heating, lighting, air conditioning, vehicle fuel usage, and reduction in electricity used in compressors, rectifiers and other compressor station functions. Energy consumption will be reduced by 33 TG annually, representing a one per cent reduction in the total amount of energy consumed by the Corporation in all of its business activities. The Corporation will improve its level of energy efficiency on an ongoing basis and measure the improvements in terajoules of energy saved.

OUR FUTURE

Climate Change and Greenhouse Gas Reductions

This initiative consists of GHG emission reductions governed by the targets that have been proposed by our Provincial and Federal Governments. The focus will be on fuel gas and energy efficiency improvements, as well as the capture of vented gas and reduction of vented emissions throughout the Corporation's business activities. SaskEnergy and TransGas will strive to reduce their carbon dioxide emissions from fuel combustion and reduce methane emissions from pipeline and compressor station venting to achieve a reduction goal of 20 per cent of 2006 emissions, or 69,130 tonnes of carbon dioxide equivalent (CO_2e), by the end of 2020. Reduction targets have been set at 5,000 tonnes of CO_2e per year, which, in combination with GHG reductions that have already been successfully achieved in the period of 2007 to 2009, will allow the Corporation to meet its goals long in advance of 2020. Tracking of accomplishments will be in absolute terms (Tonnes of CO_2e).

Governance:

Governance

The governance measure reports the degree of compliance that SaskEnergy maintains with respect to the Canadian Securities Administrator (CSA) corporate governance guidelines, as well as with other objective trends and best practices identified by Auditors and the Conference Board of Canada. The determination involves assessing the degree of SaskEnergy's compliance against the total number of these measures.

Financial Health:

Debt/Equity Ratio

This measure is calculated by dividing total debt (short- and long-term) by the sum of total debt plus total shareholder's equity.

Rate of Return on Equity

The rate of return on equity is measured by dividing the consolidated net earnings by the average shareholder's equity over the year. The average is determined as the simple average of the opening shareholder's equity and the closing shareholder's equity.

Net Income Before Fair Value Adjustments *(millions)*

Net income refers to total consolidated net income before fair value adjustments.

Capital Investment (net) *(millions)*

This measure reports the consolidated capital expenditures that result from regular core operations. It does not include capital spending associated with new business development projects.

OUR GROWTH

Core Growth Capital Investment in New Infrastructure* – SaskEnergy (net)	This metric tracks capital expenditures for customer connections for SaskEnergy Distribution Utility.
Core Growth Capital Investment in New Infrastructure* – TransGas (net)	This metric tracks capital expenditures for TransGas capital expenditures related to storage and transmission system growth.
Business Development*:	
Direct Capital Investment	This measure records the direct capital required by SaskEnergy to initiate new non-core business development activities within Saskatchewan.
Total Leveraged Capital	This measure records the estimated total capital related to the entire project scope of business development activities in which SaskEnergy is participating within Saskatchewan.
Incremental Net Income from Business Development*:	
New Business Development Saskatchewan Focused	This measure tracks the annual net income generated from Saskatchewan-based new business development initiatives.
External Investments	This metric tracks net income generated from the existing external investments that SaskEnergy has established through SaskEnergy International and SaskEnergy Nova Scotia Holdings Ltd.

*New measurement for 2009.

Glossary of **Key Success** Measures

OUR SERVICE

Reliability and Service:

Reliability Index – SaskEnergy

The reliability measure for SaskEnergy is based on a number of leading and lagging indicators that are averaged to produce a composite result. The calculation methodology provides a 60 per cent weighting for lag indicators and a 40 per cent weighting for lead indicators. The lag indicators focus on system outages and provide reliability ratings based on the causes of the outage (e.g: system failure, SaskEnergy operator error or caused by third party), as well as the impacts of the outage in terms of the number of customers affected, the duration of the outage and the cost of service restoration. The lead indicators provide ratings based on the percentage of planned maintenance projects completed and the percentage of training and job observations completed.

Reliability Index – TransGas

The reliability measure for TransGas is based on a number of leading and lagging indicators that are averaged to produce a composite result. The lead indicators provide ratings based on the percentage of planned maintenance projects completed and the reliability percentage of critical compressor units. The lag indicators focus on unplanned outages that affect customers and the percentage of service availability for receipt, intra-delivery and storage.

Customer Satisfaction – SaskEnergy

The SaskEnergy customer satisfaction measure expresses, in percentage terms, the proportion of customers surveyed that rated their overall satisfaction with SaskEnergy's service as "good," "very good" or "excellent." Positive responses such as these indicate that customers view SaskEnergy favourably and provide strong indication that customer service tools, policies and staff are effectively meeting the needs of customers. The data for this measure is obtained from customer surveys conducted by independent market research firms.

Customer Satisfaction – TransGas

This number is derived from an annual Internet-based survey conducted with all TransGas customers. The Internet method is used because most customers utilize electronic business tools to conduct business with TransGas. Customer satisfaction is measured based on four factors: Overall Company Knowledge, Responsiveness, Friendliness and Empowered to Serve. An average is taken of these four measures and reported as a percentage.

OUR SERVICE

SaskEnergy Response Time Index*

This index incorporates three measurables with equal weightings: provincial average response times for all emergency calls, percentage of calls responded to in one hour or less for locations with SaskEnergy staff and percentage of calls responded to in 1.5 hours or less for all other locations. The one hour and 1.5 hour response times align with our expectations for the maximum amount of time it would take for a technician to respond to the site of an emergency call. The use of provincial average response times for all calls supports our continued focus on minimizing our response time and aligns with natural gas industry best practices.

TransGas Emergency Index*

This measure is based on a number of leading indicators (preparedness) and lagging indicators (response) that are averaged to produce a corporate result. The lead indicators are based on: the completion percentage of emergency equipment checks and maintenance, the completion percentage of emergency exercises, the number of presentations completed for First Responders and Contractors and the number of landowner contacts. The lag indicators focus on: the number of line hits, the number of spills and the number of emergencies where the response was not in accordance with corporate procedure.

*New measurement for 2009.

OUR PEOPLE

Physical Safety:

Lost Time Frequency Rate

The Lost Time Frequency Rate measures the frequency at which lost time injuries have occurred. A standard duration is used to normalize the results so that company comparisons can be made despite differing workforce sizes. A lost time injury is an injury whereby medical attention is required and work time is lost following the day of the injury. The formula to calculate the measure is as follows: Lost Time Frequency Rate = number of lost time injuries x 200,000* ÷ total hours worked.
* The 200,000 is the standard duration calculated as 100 workers working 40 hours per week for 50 weeks of the year.

OUR PEOPLE

Physical Safety:

Medical Aid Frequency Rate

This measure records the frequency of injuries that require medical attention and normalizes the results so that company comparisons can be made despite differing workforce sizes. A medical aid injury is an injury that requires medical attention, but does not result in lost work time other than that which is lost on the day of the injury. The formula to calculate the measure is as follows: Medical Aid Frequency Rate = number of medical aids x 200,000 ÷ total hours worked.

Preventable Collision Frequency Rate

The Preventable Collision Frequency rate expresses the frequency of preventable collisions and normalizes the result to enable equitable comparisons with other companies of different sizes and scales of operations. The formula to calculate the measure is as follows: Preventable Collision Frequency Rate = number of preventable collisions x 1,000,000* ÷ total kilometres driven.
* The 1,000,000 is the given standard used by the Canadian Gas Association and Canadian Energy Pipeline Association to facilitate company comparisons.

Representative Workforce:

Representative Workforce

The representative workforce measures provide quantitative data on the employment of the four equity groups recognized by the Saskatchewan Human Rights Commission as being either underemployed or minimally employed within the Province. These four groups include: First Nations/Métis, Women, People with Disabilities and Visible Minorities. SaskEnergy also tracks the percentage of youth in the workforce, which is defined as employees who are 30 years of age or younger.

The measure is calculated by comparing the number of employees from these groups relative to the number of total employees that comprise the workforce.

Diversity Hires

This measure records the percentage of new hires from the four equity groups listed above.

Employee Satisfaction:

Employee Satisfaction

The employee satisfaction measure is a composite measure that is designed to assess SaskEnergy/TransGas employees' overall satisfaction with working at SaskEnergy/TransGas. The measure incorporates employees' opinions on a number of areas including: satisfaction with compensation and benefits, job opportunities, work/life balance and developmental opportunities within SaskEnergy/TransGas. The intent behind the measure is to assess the extent to which employees will be prepared to exercise discretionary effort while employed at SaskEnergy. The data for this measure is obtained through both internal and external employee surveys.

Glossary of Natural Gas Measurements

Joule (J) – a base metric measure of energy. One J is equivalent to the amount of energy required to raise the temperature of one gram of water by approximately one quarter of one degree Celsius.

Gigajoule (GJ) – a measure of energy used to express the heating value of natural gas or of energy consumed. One GJ is equivalent to one billion J. A typical home uses about 120 GJ of natural gas per year.

Terajoule (TJ) – a unit of energy equivalent to 1,000 GJ.

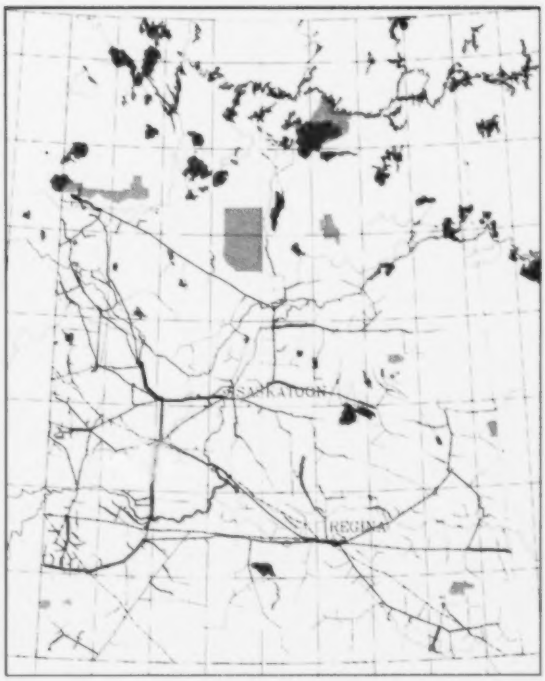
Petajoule (PJ) – a unit of energy equivalent to 1,000,000 GJ.

Cubic metre (m^3) – a unit of volume measurement commonly used to express the amount of natural gas sold to consumers. The typical home uses about 3,200 m^3 of natural gas per year.

Natural Gas Volume Equivalents at Normal Atmospheric Pressure

- One Gigajoule (GJ) is the volume of natural gas required to fill an 11 foot by 11 foot by 8 foot room (approximately 1,000 cubic feet).
- One Terajoule (TJ) of natural gas would fill a typical professional hockey arena (approximately 1,000,000 cubic feet).
- One Petajoule (PJ) is enough natural gas to fill 17 sports stadiums the size of the Rogers Centre, formerly known as the Sky Dome, in Toronto (approximately 1,000,000,000 cubic feet).

SaskEnergy Incorporated
Natural Gas Transmission Pipelines



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